

# EXISTENCE OF ENTITIES “VILLAGE CREDIT INSTITUTIONS/LEMBAGA PERKREDITAN DESA (LPD)” LOCAL COMMUNITY IN BALI VIEWED FROM FINANCIAL CONTROL SYSTEM IN INDONESIA

## Learning from Bali Local Genius in Increasing the Local Economy

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*Abstract:* Bali synonymous with tourism, culture, culinary and hospitality are appealing to the public to visit foreign countries. Efforts to support the various activities and community life in Bali did not escape the role of financial institutions that have been laid out as a local uniqueness that is not obtainable in other places in Indonesia.

Local uniqueness is a rich heritage that should be preserved as a local community identity of the identity of the Indonesian nation. “Lembaga Perkreditan Desa (LPD)” is present in every corner of Bali and is an integral part of the Balinese in managing economic system.

Setting the local financial system can not be separated from the national financial system regulated by the government in the law, binding and must be complied with by businesses that Law number 7 year 1992 regarding Banking in conjunction with Law number 10 year 1998 regarding Amendments of law number 7 year 1992 regarding Banking. As a local knowledge of course the arrangements made by the government must accommodate a variety of local knowledge contained in various areas as intellectual property in a financial arrangement that shows the identity of the nation, highly appreciated by the world.

*Keywords:* Bank, Village Credit Institutions (Lembaga Perkreditan Desa), economy.

## 1. INTRODUCTION

Development in Indonesia one of them is in the financial sector. The financial sector is one of the things that is highly correlated with the level of welfare of Indonesian society. Financial sector includes a variety of things, ranging from taxation, fiscal policy, financial institutions and others. It is quite interesting to be found in the financial institution. Financial institutions consist of bank financial institutions with

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non-bank financial institutions. Bank financial institutions in the sector, the policy settings not only on the authority of the central government, in addition there are regional efforts in implementing the financial policy.

Bank is part of the financial system and the payment system of a country, even in the era of globalization, the bank also has been part of the financial system and the world of payment systems. Given such that, then once a bank has obtained permission to stand and operation of the monetary authorities of the country concerned, the bank owned by the community. Therefore, its existence is not only to be maintained by the owners of the bank itself, but also by national and global communities.

The Bank is a financial institution that has a strategic role in harmonizing and developing the national economy and development. The main activity of banks is to absorb funds from the public. This is mainly because the Bank function as an intermediary between the parties surplus funds and those who need the funds. As an agent of development, the Bank is a tool of the government in building the nation's economy through the financing of all types of business development, namely as a financial intermediary that contribute to the state revenue.

One of the efforts of the provincial government of Bali to develop financial concepts by applying policies Village Credit Institutions (LPD). Village Credit Institutions is a form of economic institutions belonging *Pakraman* conducting business environment in the village and to *Krama* village.<sup>1</sup>Village Credit Institutions is governed by the local laws passed by the governor of Bali, with the occurrence of Bali Provincial Regulation No. 4 year 2012 regarding the Second Amendment Bali Provincial Regulation No. 8 year 2002 regarding Credit Institutions village.

One of the considerations in the Provincial Regulation Bali No. 4 year 2012 regarding the Second Amendment to Regulation Bali Provincial No. 8 year 2002 regarding Village Credit Institutions (hereinafter referred to as Regulation Bali Provincial No. 4 year 2012 regarding Village Credit Institutions) is that the Village Credit Institutions has grown rapidly, so that the necessary arrangements better ensure legal certainty and protection for the existence of Village Credit Institutions as an institution that runs the finance function belongs *Pakraman*.<sup>2</sup>

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<sup>1</sup> Ida Bagus Wiyasa Putra edit, 2001, *Landasan Teori tis Pengaturan LPD*, Udayana University Press, Denpasar, p .35.

<sup>2</sup> According to Article 1 (6) of Regulation Bali Provincial No. 4 of 2012 on Credit Institutions Village, *Pakraman* is the unity of indigenous people in the Province of Bali which has a whole tradition and manners of social life community of Hindus were hereditary in the bonds of heaven Three or *Goda* village that has a specific area and their own property and is entitled to manage his own household.

In this study raised the question about who is obliged to supervise and monitor the course of the village credit institutions, where a financial institution can not escape legal framework governing finance. We can see that this village credit institutions as one of the financial institutions which have the authority to collect funds and distribute it to the public. Role of Village Credit Institutions This can lead to new legal issues that need to be reviewed in terms of setting it consistently with the laws and regulations issued by the government and the hierarchy of regulations that must be adhered to so that the legal protection for the customers of Village Credit Institutions.

## 2. LITERATURE REVIEW

In Indonesia, the provision of banking contained in the Law of the Republic of Indonesia Number 7 year 1992 regarding Banking (hereinafter referred to as the Banking Act), as amended by the Law of the Republic of Indonesia Number 10 year 1998 (hereinafter referred to as the Banking Act The updated), Understanding bank according to Article 1 of the Banking Act are:

*"Banks are business entities that raise funds from the public in the form of savings and channel them to the public in the form of credit or other forms in order to improve the living standard of the people".*

Since the enactment of Law No. 7 year 1992 regarding Banking conjunction with Law No. 10 year 1998 re regarding the Amendment of Act No. 7 year 1992 regarding Banking, types of banks can be divided into commercial banks and rural banks.

Article 1 number 3 is:

*"Commercial Bank is a bank conducting conventional business and or based on sharia principles in its activities providing services in payment traffic".*

Article 1 paragraph 4 explaining that:

*"Rural Bank is a bank conducting conventional business or based on Sharia Principles in its activities do not provide services in payment traffic".*

Rural Banks (BPR) is an institution in the general public, where the gains from financial activities have been organized embrace elements of profit in banking, which is an element of profit in banking is an element of profit-capitalist as a factor of production, capital accumulation and for the benefit of the owners of capital.

Under Article 58 of Law No. 7 year 1992 regarding Banking conjunction with Law No. 10 year 1998 regarding the Amendment of Act No. 7 year 1992 regarding

Banking, accommodated the various types of business banks that belong to the Rural Bank is Bank village, Yongfeng Village, Market Bank, Bank Employees, barns Pith Nagari (LPN), Village Credit Institutions (LPD), Village Credit Institutions (BKD), Credit Agency Subdistrict (BKK), Business Credit Small People (KURK), Credit Institutions Subdistrict (LPK ), Bank Village Production work (BKPD) and/or other institutions equivalent to the given status as Rural Bank based on this Act to meet the requirements of the procedures stipulated by Government Regulation.

Explained further in view of the existing institutions has grown and developed from Indonesian society, and still needed by the community, then the existence of such institution recognized. Therefore, this Act provides clarity on the status of the institutions in question. Furthermore, to ensure the unity and uniformity in coaching and supervision, then the Government Regulations set out the requirements and procedures for granting the status of the institutions referred to as BPR.

Granting the status of rural banks to give legality of the various financial institutions that grow in the indigenous communities who have contributed to the growth of the local community.

Village Credit Institutions as institutions that have special properties that only serve the public Pakraman then by virtue of constitutional Article 18A and Article 18B of the Act of 1945, which contains a provision that Article 18A of the government of the provinces, districts and cities, must pay attention to the specificity and diversity of an area, which was then confirmed by Article 18B that the state recognize and respect the units of local government that are exclusive and special, and recognize and respect the units of customary law communities along with their traditional rights as long as they live, and in accordance with the development of society and the principle of unitary state of Indonesia

Village Credit Institutions as financial institutions community Pakraman using Article 18A and Article 18B of the Constitution of the Republic of Indonesia Year 1945 as the basis of its constitution, whereas the Bank is guided Article 23D, and Article 33 of Law 1945 of the Republic of Indonesia Year 1945 as the basis of its constitution.

Activity Village Credit Institutions (LPD) as a financial entity includes two (2) forms of activity generally performed as well as financial institutions Rural Banks (BPR) where it can not perform activities in financial traffic or demand deposits. The description of these activities can be explained as follows:

- (a) Receive and collect funds from villages karma in the form of financial and deposits. As well as rural banks (BPR), product financing of Village Credit Institutions only form of savings and deposits. In accordance with the provisions of Law No. 7 year 1992 regarding Banking conjunction with Law No. 10 year 1998 regarding Amendment Act No. 7 year 1992 regarding Banking.
- (b) Lend only to karma village.

Lend to the village is a form of karma that the financial system in the LPD can run smoothly where the funds have been collected from the public can be routed back so there are no funds "idle". The loans in the banking system is better known by the term "credit".

Transactions Village Credit Institutions in credit provide a role for the Village Credit Institutions as providers of funds to the debtor. This may be as a credit, such as investment loans, working capital loans, small business loans, and other types of loans in accordance with the needs of debtors. The relationship between the debtor and the Village Credit Institutions interpersonal relationships. Interpersonal relationships in credit rests on a belief or more commonly known as a credit.

In building a trust between the parties takes a variety of information. The information required from the customer will be prompted Village Credit Institutions, known as credit requirements. Meanwhile, the customers themselves should request a variety of information also about the various facilities that can be provided by the Village Credit Institutions Credit Institutions village follows the existence of its own. The information from the two sides will establish a "deal", and further engenders trust or credit. Credit is a term that is more commonly known for borrowing money.

- (c) Receive loans from financial institutions to a maximum of 100% of the total capital, including reserves and retained earnings, unless other limits on the amount of loans or support/assistance funds.

Definition of liquidity in a financial aid must be considered by the behavior of Village Credit Institutions manage assets (placements) and liabilities (fund raising). Asset and liability management aimed at obtaining profits and enhance shareholder value within certain limits. These limits include a sufficient level of liquidity, low risk, and adequate capital. Thus, asset and liability management is well aligned with the liquidity of Village Credit Institutions.

A liquidity reserve Village Credit Institutions generally constitute a guarantee or a precaution on the possibility of a financial penalty due to an increase in withdrawals. Some Village Credit Institutions choose to pursue a strategy to have excess liquidity as a signal to the market that the Village Credit Institutions have strong liquidity. On the other hand, excess liquidity can also be interpreted that the Village Credit Institutions have poor liquidity management that is not optimal in managing a portfolio of assets and liabilities. Interbank money market (interbank) or also called interbank call money market was the scene of lending and borrowing transactions of funds between banks and other banks to meet liquidity needs as well as to put short-term liquidity for daily liquidity gap.

- (d) Storing excess liquidity in BPD with interest to compete and adequate services. Concept in banking management when there are excess funds do placements or known by the name placement can be done in the form of interbank call money, savings, time deposits, or other similar forms, which are intended to generate income. Placements with other banks can also be interpreted as a placement/bills or deposits of the bank in rupiah or foreign currency at another bank, either conducting operations in Indonesia and outside Indonesia, both to support the inter-bank transactions as well as a secondary reserve with a view to obtaining income, Type of placement of funds can be a Giro, Interbank call money, savings, deposits on call (daily deposits), time deposits and certificates of deposits Interbank Call Money Placement (Placement).

Interbank Call Money placement are generally the most widely performed in banking transactions. The off-balance sheet commitments will continue to be reduced or nullified simultaneously with effectively been placed funds to another bank. Call money placement transaction will be recorded in the group of placements with other banks amounted to the gross value of bank bills or placed in other banks.

### 3. METHODOLOGY

The method used in this research is normative juridical a study that deductive initiated an analysis of the clauses in the legislation governing the above problems. Legal research in juridical means research refers to the study of existing literature or of secondary data used. While the normative mean legal research aims to gain knowledge about the relationship between the normative regulations with other regulations and application in practice.

In a normative legal research then examined at first secondary data to then proceed with the research Cosmos primary data in the field or on the practice.<sup>3</sup>

#### 4. RESULTS AND DISCUSION

Legality that must be held by financial institutions generally in Indonesia there are two things, the status of legal entity to entity and operating licenses that must be met in accordance with the type of financial institution that is run.

The status of legal entities that must be owned by a business entity finance in general because of the legal entity is subject to the law to exercise their rights and obligations as mandated by law on the existence of various financial institutions and the accountability of law in conducting its operational activities.

In general, the required form of legal entity conducting its operational activities is a Limited Liability Company (PT). Legality order Limited Liability Company (PT) has the status of a legal entity is a must obtain approval from the Minister of Justice and Human Rights and published in the State Gazette.

Operating permit bank financial institutions, particularly the rural banks (BPR) according to the Decree of Directors of Bank Indonesia Nmor: .32/35/Kep/Dir, reagrdng Rural Banks dated 12 May 1999 relating establishment of the RB required operating license from Bank Indonesia as Bank General. In the process of business license from Bank Indonesia required two phases: acquisition-principle approval and a business license. As long as one or both of these processes have not been met, the BPR can not carry out any business activities in the field of banking.

Reviewing the top two (2) the legality of the financial institution as required above, the legal status and the operational permit of Village Credit Institutions (LPD) is not in question for Regional Regulation No. LPD 8/2002, Article 2 paragraph 1 reads:

*"Village Credit Institutions (LPD) is a village-owned financial enterprises conducting business in the village and for village karma"*

The provisions in Article 2 point 1 Regulation LPD No. 8/2002 indicates that the LPD is a form of economic institutions that are recognized and affirmed by the decision in the legal status as a form of financial business entity. LPD financial business entity form is special because only undertake business activities in rural areas pakraman

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3 <http://lp3madilindonesia.blogspot.co.id/2011/01/divinisi-penelitian-metode-dasar.html>

Specificity given to the Village Credit Institutions (LPD) in conducting its operational activities unlike bank financial institutions in general but has since set up by legislation or the governor has had the legal power to be able to run its operations.

Village Credit Institutions (LPD), although included in a clump of Rural Banks (BPR) is no difference side of its business in terms of profits. Village Credit Institutions (LPD) as a financial institution serving the community Pakraman allocate the gain or profit from operations for the benefit of society Pakraman concerned, in other words, the profit earned by the Village Credit Institutions (LPD) will be back and felt by the whole village pakraman.

Village Credit Institutions have different constitutional grounds by the Bank, in addition to the constitutional basis of different legal basis Village Credit Institutions also have differences with the Bank. Village Credit Institutions using the Law No. 32 of 2004 on Regional Government, while the Bank using the Law No. 7 year 1992 regarding Banking as its legal basis. The nature membership Village Credit Institutions are covered and which can become a member simply citizens Pakraman while Bank is the general membership is entitled to become a member by anyone based on selection of the shareholders.

Customer funds in the Rural Bank guaranteed by the Deposit Insurance Agency. According to the Regional Regulation No. 4 year 2012 regarding Village Credit Institutions, to organize the protection of Village Credit Institutions, defined Skim Village Credit Institutions Protection Fund. For the purposes of storage, set the Deposit Guarantee Fund Schemes Customer Village Credit Institutions. For the security of credit, Village Credit Institutions can follow the credit guarantee that is organized by a regional credit guarantee agency.

Village Credit Institutions (LPD) in Bali is a pilot project for the next set again assorted Village Credit Institutions (LPD) throughout Bali. Establishment of Village Credit Institutions was originally conceived through a seminar held by the Ministry of the Interior in February 1984. This seminar received support from the provincial government of Bali later after the implementation of the seminar was the establishment of Village Credit Institutions (LPD) in Bali in accordance by Decree No. 972 year 1984 regarding the establishment of Village Credit Institutions in the Province of Bali.

Based on the considerations set forth in Rule Bali Provincial No. 8 year 2002 regarding Credit Institutions village where local regulation is an amendment of the Provincial Regulation Bali No. 2 year 1998 regarding Credit Institutions



village that Village Credit Institutions is a financial institution wholly owned Pakraman that has evolved, provides social benefits, economic and culture to its members, so that needs to be nurtured, enhanced performance, and preserved its existence.

Provincial Government of Bali has the goal of establishment of Village Credit Institutions. The purpose of establishment of a Village Credit Institutions at every indigenous village, based on the elucidation of Regional regulation No. 2/1988 and No. 8 year 2002 regarding credit institutions village (LPD) and also on the page official page agencies Village Credit, is to support rural economic development through increased savings habits of rural communities and to provide credit to small-scale enterprises, to eliminate the form - a form of exploitation in relation to credit, to create equal opportunities for the business activities at the village level, and to increase the level of monetization of the rural areas.

There were some changes to the rules in the implementation of Credit Institutions In the village of Bali. The regulation is the Bali Provincial Regulation No. 8 year 2002 regarding Credit Institutions Village, Bali Provincial Gazette No. 20 year 2002, Supplement No. 3 Bali Provincial Region (hereinafter referred to as LPD Perda No. 8/2002), as amended 2 (two) times with Bali Provincial Regulation Number. 3 year 2007 regarding the Amendment of the Bali Provincial Regulation No. 8 year 2002 regarding Credit Institutions Village, Bali Provincial Gazette 2007 No. 3, Supplement Bali Provincial No. 3 (hereinafter referred to as LPD Perda No. 3/2007) and the Provincial Regulation Bali No. 4 year 2012 regarding the Second Amendment Bali Provincial Regulation No. 8 year 2002 regarding Credit Institutions Village, Bali Provincial Gazette of 2012 No. 4, Supplement No. 4 Bali Provincial Region (hereinafter LPD Perda No. 4/2012).

Establishment of Rural (LPD) is a financial institution that specifically and only in society Pakraman with operational limits even though he does not have legislation providing status as rural banks (BPR). Operational limits only in the scope Pakraman while rural banks have operational areas in the province.

Village Credit Institutions (LPD) is not a legal entity in legal theory of the legal entity which otherwise has the authority (on bevoegheid) in carrying out their legal rights and obligations. The authority in running the business entity as stated in the policy issued by the Governor of Bali.

Governor's guidance and supervision. Governor commissioned a general guidance to the Board of Trustees and the Board of Trustees of the Provincial general the Regency/City. Governor commissioned BPD as supervisor of technical and

external supervisors LPD. Governor in implementing human resource development LPD formed Institute for Development and Training LPD.

In Article 6 Regional Regulation No. 4 year 2012 regarding Village Credit Institutions in the province of Bali said that the right to issue a permit to establish Village Credit Institutions was governor. Permit the establishment of Village Credit Institutions stipulated by the Decree of the Governor on the recommendation of Regent/Mayor and Main Assembly Pakraman. Top Assembly Assembly Pakraman is Pakraman formed and elected by delegates Pakraman in Bali through Paruman Court and domiciled in the provincial capital is Denpasar.

Regional Regulation No. 4 year 2012 regarding Credit Institutions village set on the Work Plan and Budget Plan. Each year the board made the Work Plan and Budget Plan for the following year. It was submitted no later than 3 (three) months before the end of the fiscal year to prajuru village for approval and submitted to the internal supervisory authority for approval.

Any changes to the Work Plan and Budget Plan in the ongoing fiscal year must be approved and submitted to the village prajuru internal supervisory authority for approval no later than 1 (one) month from the proposed changes submitted.

Work Plan and Budget Plan submitted to the Governor for the purposes of development and the Main Assembly Pakraman, Associate Assembly Pakraman, Empowerment Institute and the Provincial Rural Credit Institutions Credit Institutions Institute for Rural Empowerment District/Municipal for the purposes of supervision.

Within three (3) months after the Fiscal Year ended, the executives of Village Credit Institutions must deliver the Annual Report with the Financial Statements to prajuru village. The report must be submitted to Krama village of at least 2 (two) weeks before the meeting of the village.

Regional Regulation No. 4 year 2012 regarding Credit Institutions also organize a village of about coaching for Village Credit Institutions. Governors along Main Assembly Pakraman do the coaching. Governor commissioned a general guidance to the Board of Trustees and the Board of Trustees of Public Works Provincial District/City.

Governor of the Main Assembly consideration Pakraman commissioned Empowerment Institution Provincial Rural Credit Institutions and implement technical assistance in the empowerment of Village Credit Institutions. At the request

of Krama village through Paruman, once in the first year should be an audit of the Village Credit Institutions.

Local Regulation No. 8 year 2002 regarding Village Credit Institutions also regulate the dissolution of Village Credit Institutions can happen for real village or revocation of the establishment. Handling possessions after the dissolution carried out by a Wealth Management.

Managers and employees of Village Credit Institutions which deviated from the applicable provisions or negligent in carrying out the tasks of its obligations, either directly or indirectly cause harm to the Village Credit Institutions, liable under the terms of legislation in force.

Certain civil servants in the Government of the Province were given special authority as investigators to investigate criminal acts committed in violation of Village Credit Institutions.

## **5. CONCLUSION**

Policy formation of Village Credit Institutions (LPD) in Bali begins with an idea of the results of the seminar held by the Ministry of the Interior in February 1984. This seminar received support from the provincial government of Bali later after the implementation of the seminar was the establishment of Village Credit Institutions (LPD) in Bali in accordance with Decree No. 972 year 1984 regarding the establishment of Village Credit Institutions in the Province of Bali. The purpose of establishment of a Village Credit Institutions at every indigenous village, based on the elucidation of Regional regulation No. 2/1988 and No. 8 year 2002 regarding credit institutions village (LPD) and also on the page official page agencies Village Credit, is to support rural economic development through increased savings habits of rural communities and to provide credit to small-scale enterprises, to eliminate the form - a form of exploitation in relation to credit, to create equal opportunities for the business activities at the village level, and untuk increase the level of monetization of the rural areas. People's Credit Institutions (LPD) is a financial institution that specifically and only in society Pakraman with operational limits even though he does not have legislation providing status as rural banks (BPR).

In connection LPD devoted in Pakraman and basic formation is the Bali Provincial Regulation, the authority in the management of a business entity has a separate mechanism in which the role of the Governor to provide guidance and oversight. Governor commissioned a general guidance to the Board of Trustees and the Board of Trustees of the Provincial general the Regency/City. Governor

commissioned BPD as supervisor of technical and external supervisors LPD. Governor in implementing human resource development LPD formed Institute for Development and Training LPD.

The style of togetherness in customary law prioritize common interests, in which self-interest covered by a common interest. One for all and all for one, the legal relationship between members of the indigenous communities was based on a sense of community, kinship, mutual help and mutual cooperation. One of the customs that still survive in the life of indigenous peoples of Indonesia is customary in the community of Bali. Balinese customary law put forward three (3) main topics in human efforts to strike a balance between the citizens themselves, the relationship between citizens with community groups, and public relations with the natural balance of the deity. The principal base of the starting point of life of indigenous groups in Bali by the casting of Hindu philosophy called Tri Hita Karana. The philosophy of the Balinese with togetherness appears also in the economy with the presence of Village Credit Institutions (LPD). Its existence is an implementation daricorak and the nature of togetherness is also raised in Article 33 paragraph (1) of the 1945 Constitution which states that “the economy is structured as a joint venture based on family principles”. In the explanation it is said that, “in Article 33 are listed on economic democracy, production is done by all, for all under the leadership or ownership of the community members. Prosperity for communities to come first, not the individual prosperity. Because the economy is structured as a joint venture based on family principles. Village Credit Institutions (LPD) is a financing model that was developed based on the values of indigenous peoples who live in the community in order to help the economy. Bali is one of the provinces in Indonesia which is famous for its culture, One of the unique in Bali is the existence of Pakraman. Pakraman scope is not limited to the roles of social, cultural and religious, there are also economic role to manage Pakraman. Village Credit Institutions (LPD) as a business entity owned by the Savings and Loans which serves traditional village and the main aim to promote the economic development of rural communities through targeted savings as well as the effective capital distribution. Village Credit Institutions (LPD) has a role as an institution whose role is to improve people’s welfare through the development of community economy, in addition to the Village Credit Institutions (LPD) as a source of revenue indigenous villages, because 20% of profits obtained Village Credit Institutions (LPD) is intended for increased empowerment of indigenous villages. The existence of Village Credit Institutions (LPD) in Pakraman has been able to increase the potential of rural communities and help people pakraman Pakraman in Pakraman life in society, as well as ease the burden on society. The role of Village Credit Institutions (LPD) in

helping people Pakraman also included in providing funds to build the temple and the ceremony, which was previously done with private funds Pakraman society. The uniqueness of uniting culture and values of the philosophy of Tri Hita Karana is the local wisdom that can only be in Pakraman Bali.

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