

LPD MODEL AND FUNCTION IN INCREASING THE INDIGENEOUS BALI ECONOMY

I Wayan Ruspendi Junaedi¹, I Wayan Damayana², Dermawan Waruwu³

¹Management Program, Universitas Dhyana Pura;

^{2,3}Psychology Program, Universitas Dhyana Pura

Email: ruspendijunaedi@undhirabali.ac.id¹; damayana@undhirabali.ac.id²
dermawanwaruwu@undhirabali.ac.id³

ABSTRACT

The Village Credit Institution in Bali as a savings and loan business entity owned by a customary village, functions and aims primarily to encourage the economic development of rural communities through targeted savings and effective capital distribution. From the description above, the problem research formulation is how the existence and function of LPD in improving the economy of the Balinese people. The purpose of this research is to determine of the Model and the function of LPDs in improving the economy of the Balinese people. The research methodology is a qualitative descriptive method with observations, interviews, triangulation and documentation. The findings and results of the study are (1). Village Credit Institutions (LPD) as a financial institution that carries out the activities of collecting and channeling community funds operating in a customary village administration area on the basis of kinship between villagers. (2). By relying on the number of villagers and the close family ties within the LPD village, they continue to develop their institutions. (3). LPD has a function and purpose as a forum for village wealth in the form of money or other securities. As one of the Customary Village Owned Enterprises (BUMDA) directed at efforts to improve the standard of living of the village manners and support the development of the Customary Village. (4). Encourage development and maintain the economic resilience of the indigeneous Village society through targeted savings and effective capital distribution). (5). Model of LPD is the Indigeneous helping the small entrepreneurship in order to increasing the economic development so that the welfare of the people in bali increasing. (6). Creating equity and business opportunities for villagers and rural labor. (7). Increasing purchasing power, expediting payment and money flow in villages, and preserving Hindu culture, customs and religion. The conclusion is that the LPD still exists and the LPD is able to improve the economy of the Balinese community in general and improve the national economy in particular.

Keywords: Existence; Model; LPD Function; Economy; Society.

INTRODUCTION

Indonesian territory has traditional institutions that regulate social, cultural and economic life. Indigenous peoples in Bali have awig-awig that regulate the pattern of social life, culture, religion, and even the economy. In general, awig-awig is known as the Supreme Paruman Decree. Each adat area has its own Paruman Agung Decree in accordance with its social, cultural, religious, economic and geographical conditions. In

developing the concept of customary economy and its capital, the Bali Traditional Village levies fees on traders who do business in their area. This levy is always done every day or every month. This levy is imposed on all parties, both in the informal sector and the formal sector. One of the traditional markets in Badung Regency, Bali Province, which gives donations every month to traditional officials as shown in Figure 1 below.



Figure 1. Traditional Market Atmosphere in Bali
(Source: Junaedi Documents, 2018)

Small businesses in the informal sector have very low costs, have profit margins, use negotiation agreements outside the legal system, and provide minimum wages [1]. Small businesses in the informal sector are often less efficient in investing than the formal sector [2]. Usually small businesses are less able to read market opportunities, capital weaknesses, managerial weaknesses, including weaknesses in obtaining market access information [3].

Strengthening carried out by the Village Customary Institution (LPD) in the Province of Bali aims to build the economy of its people. The successful development of this economic model is evidenced by the business activities managed by the Indigenous Village such as traditional markets, cooperatives, LPDs, management of tourist attractions, and so on. The informal sector plays a role in solving the problem of poverty [4]. The informal sector is strongly correlated with economic development [5]. The informal sector is in great demand by residents who work as entrepreneurs. Human capital in the informal sector often creates negative externalities, so the government reduces it through special taxes and regulations [6].

The success of the economic development of indigenous peoples in Bali can be a model for accelerating national economic development through empowering indigenous peoples throughout Indonesia. The Village Credit Institution in Bali as a savings and loan

business entity owned by a customary village, functions and aims primarily to encourage the economic development of rural communities through targeted savings and effective capital distribution.

Village Credit Institutions (LPD) as a financial institution that carries out the activities of collecting and channeling community funds operating in a customary village administration area on the basis of kinship between villagers. By relying on the number of villagers and the close family ties within the LPD village, they continue to develop their institutions. LPD is a financial business entity that is owned by a community (village) not owned by an individual / legal entity. LPD working area: in the local village environment. One of the LPD's capital comes from non-governmental funds. The success of the economic development of indigenous peoples in Bali can be a model for accelerating national economic development through empowering indigenous peoples throughout Indonesia.

Problem Formulation

From the background of the above problems, it can be formulated as follows:

- 1) How does the Balinese Indigenous Village build its community economic system?
- 2) What are the forms of economic institutions of indigenous peoples in Indonesia?
- 3) What is the economic empowerment model for indigenous peoples as a strategy in accelerating national economic development?

Research Objectives

This study aims to: find out how the Balinese Adat Village community builds its economic system; identify the forms of economic institutions of indigenous peoples in Indonesia; and formulating the economic empowerment model of indigenous peoples as a strategy in accelerating national economic development.

Research Urgency

The Indonesian economy is not yet stable and depends on developed countries. Indonesian territory is rich in natural resources, culture, and customs, but it has not yet been utilized to its full potential. Indonesian people have a traditional economic system that has been run for generations, one of them is the indigenous people in Bali through the Village Credit Institutions. Therefore, this research needs to be done to get the economic empowerment model of indigenous peoples as a strategy in accelerating national economic development.

LITERATURE REVIEW

Indigenous Peoples

Indonesian territory is rich in customs that have been passed down for generations. The pattern of community behavior is an important part of these customs. The perspective of the community mostly craves employment as a Civil Servants (PNS) and office workers rather than maximizing the potential economic potential of them such as traders or entrepreneurs. Prestige of civil servants or office workers are considered better than employers or traders. Whereas economically, an entrepreneur or trader has a higher income compared to civil servants or office workers.

The economic life or business sector in any form is inseparable from the customs or culture adopted by the community in every region in Indonesia. The level of entrepreneurship varies greatly according to the culture or customs adopted by each society [7]. The Balinese develop the concept of adat economy as determined by awig-awig. The economic capital of the Indigenous Village community in Bali is obtained through official levies to traders who do business in the customary area. This levy is always done every day or every month. This levy is applied to all parties in both the informal and formal sectors.

The pattern of understanding of a type of work is influenced by the customs or culture of the community. Cultural factors of each society greatly affect the level of productivity. Attitude and perspective of a person as a result of community cultural interaction are the main factors that inhibit development. In the environment of tropical society, attitudes toward agricultural work are negative and working outside is a type of work with low status. Many cultures are very static and there is little desire to do selfimprovement, change and work. People who work hard and want to change are still very minimal in Indonesia because of the structure of their society. Moreover, influenced by feudalistic cultural settings, so that resources are dominated by landlords [8]. Thus, adat is very influential in increasing the economy of a region and even increasing national economic development.

National Economic Development

The acceleration of national economic development is inseparable from the existing economic institutions in all regions of Indonesia. The concept was developed in New Institutional Economics (NIE) with a foundation that seeks to build ideas about institutions and organizations with the aim of achieving efficiency and minimizing costs. In the concept of overall costs, not only in the form of production costs such as the Neoclassical economic conception, but also transaction costs.

The competitive state of the Indonesian market can be a natural selection, where only efficient companies benefit. In the context of the economy of the Balinese people

emphasize certainty and diversity. NIE on the other hand operates at two levels, namely the macro environment called the institutional environment (institutional environment) and the micro environment called the institutional arrangement (institutional arrangement). The institutional environment is a set of political, social and legal regulatory structures that stabilize production, exchange and distribution activities. The economic policy environment as a macro-environment includes: rules regarding electoral procedures, ownership rights and contractual rights [9].

In NIE explores non-market institutional ideas (ownership rights, contracts, revolutionary parties, etc.) as a way to compensate for market failures. In the NIE approach, the presence of imperfect information, production externalities, and public goods are identified as the most important sources of market failure, thus necessitating the presence of non-market institutions. In contrast, in the neo-classical approach, the three variables above are assumed not to exist, so the transaction costs associated with these variables are considered to be non-existent. In addition, the NIE literature adds several important points about institutional failures which are the cause of underdevelopment in many countries. The institutional failure refers to the contractual and legal structure, as well as weak regulation of third party enforcement, even though all of this must be strengthened to be able to carry out market transactions [10].

The working principle of the NIE operates at two levels, namely the institutional environment (macro level) and institutional arrangements (institutional level (micro level). In this context, Micro, Small and Medium Enterprises (MSMEs) play a role in expanding employment and contributing to Gross Domestic Income (GDP) [3]. Institutional environment is a set of political, social and legal regulatory structures that describe production, exchange and distribution activities. The rules regarding election procedures, ownership rights and rights in contracts are some examples of environmental / economic policies. Conversely, the level of micro analysis is related to the problem of institutional governance (institutions of governance).

Institutional agreement is an agreement between economic units that aims to manage and find a way so that inter-unit relations run smoothly, both through cooperation and competition. An ownership agreement is an institutional arrangement, because in it allocates ownership rights to individuals, groups, or the government [6]. Institutional agreements refer to ways to manage transactions, whether through markets, shadow markets (quasi-markets), or contract models that use the hierarchy. Institutional agreement approaches the most popular term referred to as 'institutional' [10]. The focus is on individual transactions related to the organization or culture of the community. In this case, the relationship between culture and entrepreneurship as well as culture is very influential in the development of entrepreneurship [11] [12].

Based on the description above, the relationship between culture and entrepreneurship greatly affects the economic improvement of the Indonesian people. Culture has an important role in shaping entrepreneurship, both local culture and national culture. Thus, customary institutions in all regions of Indonesia can be developed to improve the economy and welfare of its people.

METHOD

The method used in this study is a qualitative and quantitative descriptive method (mix method) and a type of grounded research that conducts in-depth interviews with triangulation techniques to traditional leaders in Indonesia and the banking sector. Qualitative and quantitative research is a process of finding data that aims to understand social problems that are based on holistic research, formed by words, and obtained from natural situations.

The research locations were carried out in Bali. To start this research began in the Province of Bali because this area already has a customary economic institution (LPD) that has succeeded in improving the economy and welfare of its people and impacting on the acceleration of national economic development.

Data collection techniques carried out by observation, interviews, and document / library studies. Observations were made by observing the economic life of indigenous peoples in the three provinces. Then traditional leaders and SMEs were interviewed in depth who used the snowball method to the point of saturation of research related to the community's economy and the types of jobs and businesses that he had been engaged in so far. After the data is collected, the data is reduced, then analyzed and arranged according to the desired patterns so that it is easily understood by the reader.

FINDINGS AND ANALYSIS

Of the three forms of indigenous economic empowerment, the authors discuss sequentially. Namely, the first Village Credit Institutions (LPD) in the province of Bali, the second Ate Keleng Credit Union (CU) in North Sumatra province and finally the Betang Asi CU in Central Kalimantan province.

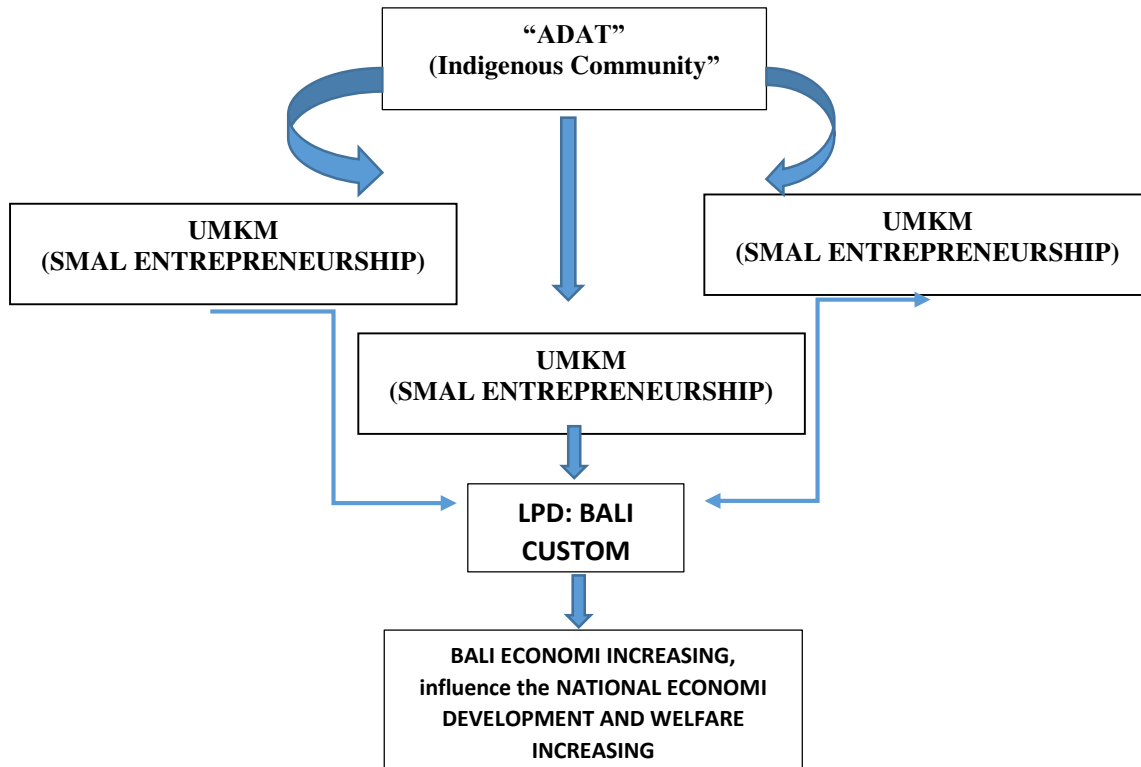
The Model of LPD Bali

The LPD, beginning in 1983 at that time Ida Bagus Mantra, formulated the idea of forming an adat-based financial institution by adopting and developing the concept of local wisdom: sekaa in banjar in the midst of Balinese society. To reinforce his idea, the Governor of Mantra held a comparative study in Padang. There was already established Pitih Nagari Granary (LPN). LPN is a savings and loan institution for the indigenous people

of Padang which is quite successful. LPN already existed in Minang, long before Japan colonized Indonesia. LPN initially recognized the basic principles of arisan which were utilized for customary interests such as engagement ceremonies, marriages, datuk appointments and others. At the same time, the Central Government also launched a program to establish credit institutions in rural areas to encourage economic development and improve the welfare of rural communities. A few months later a seminar was held on Village Financial Institutions (LKD) or Village Credit Agencies (BKD) in Semarang held by the Ministry of Home Affairs in February 1984. A number of provinces in Indonesia actually had Rural Credit Institutions that flourished in the 1980s. This institution is generally called the Village Fund and Credit Institution (LDKP). But in each region the names are different as in Aceh called the Sub-District Credit Institution (LKC), in West Java the Sub-District Credit Institution (LPK), in Central Java the Sub-District Credit Agency (BKK).

Bali tried to translate and finally, the Village Credit Institution (LPD) was formed in Bali with the aim of helping traditional villages. LPD's profits are planned to build religious life and ceremonial activities such as piodalan (ceremonies), so that citizens do not have to pay mandatory contributions. First, one LPD pilot project was made in each district. At that time, the legal basis for the formation of the LPD was only a Decree (SK) of the Governor of Bali's First Level Region No. 972 of 1984, November 19, 1984. Furthermore, 1985 (24 LPD), 1986 (71 LPD). Four years later 1990 (341), 1995 (849 LPD), 2000 (930 LPD), 2005 (1,304 LPD). In 2015 (1,423 LPD), in 2016 the total LPD in Bali reached 1,433 LPD. Based on data, as of October 2018, from 1433 LPD in Bali, with more than 7,900 employees and total assets reached Rp 21.5 trillion. Furthermore, the LPD was strengthened by the Bali provincial regulation no. 2/1988 to Bali provincial regulations No.8 / 2002 and related regulations. In addition to the requirement to have a written customary village regulation, the establishment of an LPD also depends on the provincial government's annual budget to provide start-up capital and prepare management implementers.

Diagram. 1.
Model Of LPD Bali



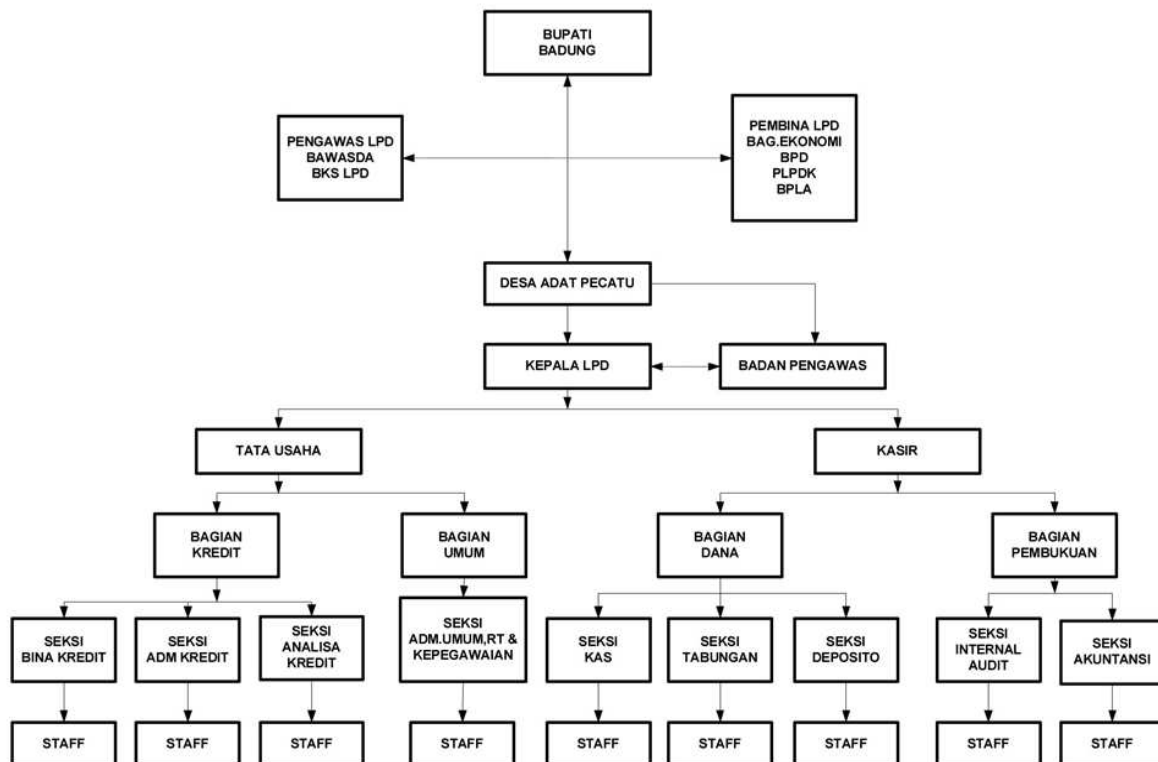
Lpd Vision

The realization of a healthy, strong, productive, and trusted LPD industry as a microfinance institution to support rural development, as well as the preservation of customs and culture of the Balinese region based on Tri Hita Karana in order to enrich the nation's cultural treasures. Creating conditions that are conducive to encouraging the improvement of LPD performance and sustainable financial services to the villagers of Pekraman to support economic growth and improve the welfare of village manners in the Bali region.

Lpd Management

LPD management is the representative of each banjar in the local traditional village. See the diagram below i.e. an example of the structure of LPD.

Diagram. 2
Structure Of LPD



Lpd Has Functions and Objectives

As a container for village wealth in the form of money or other securities. As one of the Indigenous Village Owned Enterprises (BUMDA) directed at efforts to improve the standard of living of the village manners and support the development of the Customary Village. Encourage development and maintain the economic resilience of the Adat Village society through targeted savings and effective capital distribution). Eradicate bondage, dark pawn, etc. which can be likened to it. Creating equity and business opportunities for villagers and rural labor. Increasing purchasing power, expediting payment and money flow in villages, and preserving Hindu culture, customs and religion. Bellow is the Excellence of LPD, i.e.

- 1) Lending is prioritized for weak economy communities as business capital;
- 2) Low interest loans (including soft loans);
- 3) The repayment period is 1-5 years depending on the size of the loan, with reduced interest;

- 4) For loans in certain amounts can be submitted without collateral/collateral;
- 5) For those who do not / do not have a KTP Bali can apply for credit / loan with KIPEM and a statement of guarantee from Kelian Banjar where he lived while in Bali;
- 6) Not subject to administrative costs;
- 7) The process is fast.

Bali Provincial Regulation No.4 of 2012 concerning LPD article 22, paragraph 1 explains: one of the net profit sharing of LPD at the end of the accounting year is for a 20% village development fund and a 5% social fund. This indicates that LPDs in Bali also have a social responsibility to the community. Disclosure of social responsibility to LPDs in Bali, which are given to indigenous village communities in accordance with the teachings of Tri Hita Karana (Parhyangan, pawongan, and palemahan). The LPD has clearly provided 20 percent of the profits for Bali's development. As an illustration at the end of 2017, the profit of LPD throughout Bali reached more than 524 billion, meaning that development funds of more than 120 billion were handed over directly to the development of indigenous villages. Bali Provincial Regulation No.4 of 2012 concerning LPD article 22, paragraph 1 explains that the net profit sharing of LPDs at the end of the accounting year is determined (a) capital reserves of 60%, (b) village development funds 20%, (c) production services 10 %, (d) development fund, supervision and protection 5%, (e) social fund 5%. The deposit and use of the profits referred to are in accordance with the governor's decision. LPD is a financial institution owned by Pakraman village that has developed and provides socioeconomic, and cultural benefits to its members. This institution which is not under the supervision of OJK in the future is still very relevant and needed as a driving wheel for the economy in Bali. Especially for SMEs when there is difficulty in accessing official banks, this is the place.

LPD is actually also governed by a financial regulation regulated in the Financial Law and Law No. 1 of 2013 concerning Microfinance Institutions (MFIs). However, in practice the LPD is now a full practice of saving and lending money with interest-bearing money systems, and he assesses such practices as the Rural Bank (BPR) by getting an exception. The existence of LPDs is regulated in Act Number 1 of 2013 concerning Microfinance Institutions (LKM). Paragraph 3 Article 39 of the Law, which reads "Village Credit Institutions and Pitih Nagari Granary and similar institutions that existed before this Law came into force, is declared to be recognized under customary law and not subject to this Act".

Furthermore, with the stipulation of the Indigenous Village Ranperda to be a Regional Regulation (No.4 Year 2019), in the future customary villages in Bali have the right to arrange their own awig awig and legal before the law, including compiling awig-awig for LPD development. Local regulations will strengthen customary law, and LPDs under

customary law will be stronger. The establishment of the LPD to strengthen the strongholds of village autonomy authority in enduring a sustainable culture must be understood together. The role and function of the LPD holistically in the strengthening and development of the Indigenous Village economy as well as the preservation of customs, traditions, arts and culture and Balinese local wisdom.

LPD: Era Digitalization

Although LPD is a traditional financial institution, its management must be professional by encouraging the use of digital technology. Become a necessity, so that it does not become left behind especially in the current digitalization era. LPD must be able to develop innovation in the development of digitization, so that LPD becomes a traditional institution with a digitalized management system as a form of implementation of modernization.

In addition to digitization, educated and certified human resources are absolutely a must have. Of the 1,433 LPDs scattered throughout Bali, 600 of them have used LPD core standardization which facilitates data input and facilitates the LP-LPD inspection and supervision system. The use of LPD mobile has started to be carried out by LPD which provides convenience for customers. Included at this time is the BKS-LPD has designed the LPD Smart Outlet in collaboration with shops or stalls in the Pakraman village area.

The business activities of Labda Pacingkreman Indigenous Village (LPD) planned by the Governor of Koster include three business fields, namely the business of managing the Padruwen Indigenous Village, managing the Punia Krama Fund, and Krama Indigenous Village social economic activities.

CONCLUSION

From the explanation above, where the author has studied and paid attention to the LPD it was found that there are similarities in the economic empowerment model of indigenous peoples that are able to fulfill the desires of each of its members. (a) The way the Balinese Indigenous Village builds the economic system of its people is by strengthening the LPD by collecting contributions from residents of their village. (b) The economic empowerment model of LPD indigenous peoples as a strategy in accelerating the development of the national economy, namely: Helping troubled members; helping people who want to grow and developed; there are Standard Operating Procedures or SKEMA that must be passed by members in each of these customs; the existence of cheap interest that causes no courage to borrow that can be used for business; and there are borrowing conditions set by each institution, but differ in terms of credit services. The Model of LPD and the existence of customary economic institutions that support people to

improve their economy in order to accelerate the development of the national economy which ultimately leads to the welfare of the lives of its people.

ACKNOWLEDGEMENTS

This research supported by The Ministry of Research and Higher Education of the Republic of Indonesia, through the Fundamental Research Grant for the fiscal year 2019-2020 and Dhyana Pura University, who has giving the opportunity to conduct research. We would like also to thank to our research helper who gathered data on field survey.

BIBLIOGRAPHY

- [1] Nafziger EW. *Economic Development*. 2012. Epub ahead of print 2012. DOI: 10.1017/CBO9781139028295.
- [2] Bigsten A. Determinants of the evolution of inequality in Africa. *J Afr Econ* 2018; 27: 127–148.
- [3] Sabirin. UMKM, MEA, Pembangunan Ekonomi. *J Kewirausahaan dan Usaha Kecil Menengah* 2016; 1: 41–50.
- [4] Todaro M., Smith S. *Economic Development*. 2012. Epub ahead of print 2012. DOI: 10.1177/089124240001400105.
- [5] Pratap S, Quintin E. The Informal Sector in Developing Countries: Output, Assets, and Employment. In: *Personal Wealth from a Global Perspective*. 2009. Epub ahead of print 2009. DOI: 10.1093/acprof:oso/9780199548880.003.0018.
- [6] LeRoy Miller R. Business Law Today: The Essentials. In: *South-Western Cengage Learning*. 2011, p. 127.
- [7] Lambing P dan CRK. *Entrepreneurship*. New Jersey, USA: Prentice Hall, 2000.
- [8] Beets WC. *Raising and Sustaining Productivity of Smallholder Farming Systems in the Tropics*. Holland: AgBe Publishing, 1990.
- [9] Budi SP. Relevansi Dan Aplikasi Aliran Ekonomi Kelembagaan. *J Ekon Pembang* 2008; 9: 46–60.
- [10] Erani YA. *Ekonomi Kelembagaan*. Malang: Bayumedia Publishing, 2008.
- [11] Gamage, H.R. Cameron, D. & Woods E. Are Sri Langkan Entrepreneurs Motivated by the Need for Achievement? In: *Presented at the 9th Inter-national Conference on Sri Lanka Studies, 28th – 30th November 2003*. Sri Lanka: Matara, 2003.
- [12] Saffu K. The Role and Impact of Culture on South Pacific Island Entrepreneurs, *International Journal of Entrepreneurial Behavior & Research*. 2009.
- [13] <https://robiatuladawiyah995.wordpress.com/2013/12/10/pengertian-credit-union-cu/>.
- [14] <http://www.credituniondayalestari.org/page/sejarah-credit-union-dunia>.
- [15] https://id.wikipedia.org/wiki/Koperasi_kredit.
- [16] <http://journal.widyadharma.ac.id/index.php/bisma/article/download/180/179>.