

## LPD as The Embodiment of Financial Institutions Based on Social Capital in Bali, Indonesia

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### ABSTRACT

*Lembaga Perkreditan Desa* (LPD) is a financial institution established by *desa pakraman* (village) in Bali. Various studies toward this institution showed the success of LPD in achieving its goal for the economic empowerment of the Balinese. This success cannot be separated from the role of *desa pakraman* in enclosing social capital in the form of values, norms and regulations in the form of *awig-awig* (village law) in LPD managerial activities. The inclusion of social capital encourages trust that becomes the basis for the creation of cooperation and collaboration in achieving the LPD goals.

Keywords: LPD, managerial, social capital.

### 1. Introduction

*Lembaga Perkreditan Desa* (LPD) or village bank is a financial institution established and owned by *Desa Pakraman* (village). As banking institutions, LPD is an intermediary channeling funds from those who have excess funds (surplus units) to the parties that lack of funds (deficit units) (Kasmir, 2000; Sudirman, 2000; Atmadja, 2000; Taswan, 2005). Parties who have excess funds will be placing funds in the LPD in the form of savings or deposits which are then distributed in the form of credit to those who need funds.

Establishment of LPD initiated in 1985 and since then continues to experience rapid growth, both in terms of number and total assets managed. Based on the data by the Bureau of Economic and Development of Bali (2009) the number of LPD in its early only totaled 8 LPD and in 2008 had grown to 1356 LPD. It is not surprising if Bali is then known as the Island of Thousand LPD (Atmadja, 2010). The development in terms of the number of LPD was also accompanied with a total asset growth of LPD in Bali, which until December 2008, had reached Rp. 3,396,902,000,000.00.

At the level of *desa pakraman*, success of LPD was demonstrated by its ability to improve the economy of *desa pakraman* members. This was proved by various studies on the LPD and *desa pakraman* generally stated that the LPD has a very important role in improving the economy and welfare of *desa pakraman* members. Study on Atmadja (2001, 2006), Warren (2008), Dewi (2008), and Gunawan (2009) gave an impressive portrait of the LPD functionalism toward *desa pakraman*. With the LPD, members of *desa pakraman* are no longer experiencing difficulty in obtaining funds for consumptive or productive activities. In fact, that is no less remarkable is the presence of various contributions of LPD toward *desa pakraman* in the form of grants of ritual, development funds, scholarships for poor and other philanthropic activities (Warren, 2010; Sulistyowati, 2011).

Success of LPD in achieving its goal cannot be separated from *desa pakraman* itself as the owner. *Desa pakraman* has been able to enclose social capital in the managerial activities of

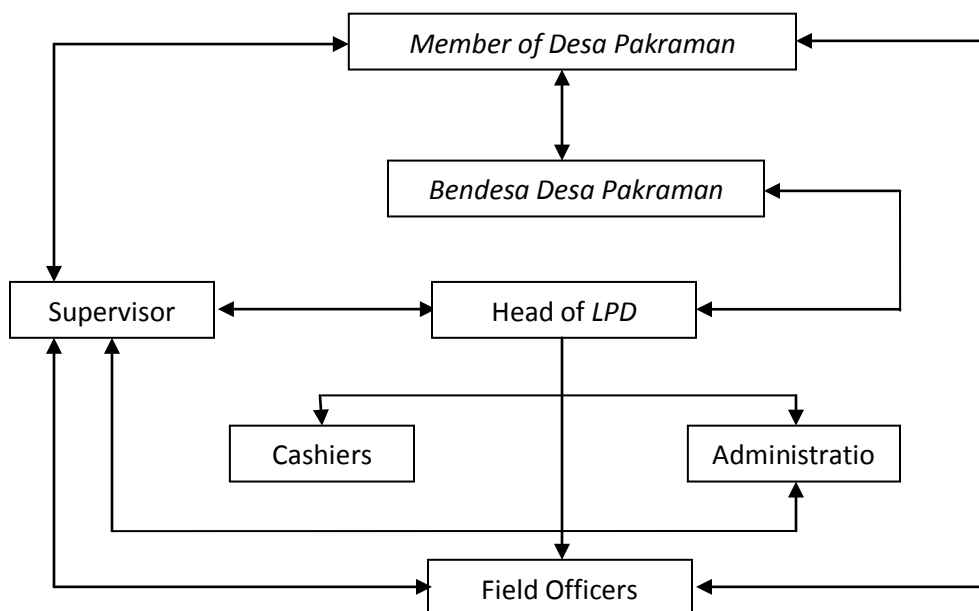
the LPD board. This form of social capital is the normative regulations belong to *desa pakraman* which can improve the compliance of members who managing and interacting with LPD. The utilization of social capital in the management of LPD is an interesting fenomena and need to be better understood.

**2. Purpose of the Establishment and Governance of Lembaga Perkreditan Desa (LPD)**

Establishment of LPD is based on the Decree of the Governor of Bali No. 972 of 1984 on the Establishment of *Lembaga Perkreditan Desa* in the Province of Bali. Governor Decree is then amplified by the Local Government Regulation No. 2 of 1988 and updated by Regulation No. 8 of 2002 and Regulation No. 3 of 2007 about *Lembaga Perkreditan Desa* (LPD). In this regulation, underlined that LPD is a savings and loan business institution which the main capital source comes from the members of *desa pakraman* in order to encourage rural economic development through savings and capital inclusion, the eradication of debt bondage and illegal mortgage, creating equity and open opportunities for the villagers in doing business and increase purchasing power and launched a payment and the circulation of money in the village. To achieve these objectives, the field of business carried on by the LPD, namely: a) receive / collect funds from the villagers in the form of savings and deposits, b) give loans only to the villagers or member of *desa pakraman*, c) to receive loans from other financial institutions without abandoning the principle of prudence, and d) storing the excess liquidity in *Bank Pembangunan Daerah Bali* (the regional development banks) with adequate return.

In conducting its operational activities, LPD has some boards consisting of head of LPD, administrations, cashiers and Field Officers. LPD boards is elected by all members of *desa pakraman* with a term of 4 years and after the term is expired, they can be re-elected. The boards is constantly coordinating with *desa pakraman* through *Bendesa desa pakraman* (head) and LPD supervisor. The organizational structure of LPD can be described as Figure 1 below.

**Figure 1.**  
**The organizational structure of LPD**



Of organizational structure chart appears that the supreme power of *LPD* lies on the hands of *desa pakraman* members. This condition is not surprising because, as set forth in Regulation No. 3 of 2001 about *desa pakraman*, that *LPD* is basically a financial institution belong to *desa pakraman*, consisting of *desa pakraman* members, so it is directly or indirectly *LPD* is basically belong to villagers. As a form that *desa pakraman* member is the owner of *LPD*, the *LPD* regulation (*awig awig*) is determined by *desa pakraman* members. Similarly, the *LPD* boards are also elected by *desa pakraman* members. In this way, *desa pakraman* members as the owner of *LPD* can put reliable human resources to manage the *LPD*, particularly in relation to carrying out the management functions that can be run in a healthy *LPD* in order to realize its goals.

In order to ensure the management *LPD* operational activities in accordance with the interests of all manners *Pakraman Pakraman* delegate the regulatory process to *Bendesa Pakraman Village*. This obligation is in line with the provisions of Chapter V, Section 9, Clause 2, Regulation No. 3 of 2001 about *desa pakraman* which outlines that one of the duties of the head of *desa pakraman* is to manage and regulate the management of assets of *desa pakraman*. In this context, *LPD* is one of the assets of *desa pakraman* so it is normal that the head of *desa pakraman* get involved in the organizational structure of *LPD*.

In carrying out the daily surveillance activities, head of *desa pakraman* sits in the supervisory agencies, assisted by at least two members selected by members of *desa pakraman*. An involvement of the head in the organizational structure of *LPD*, not merely implicit, due to its position as a supervisor in the name of *desa pakraman* members, but also explicitly set in the law No. 8 of 2002 about the *LPD*, ie, as chairman of the *LPD* supervisor. Thus, the position of the head of *desa pakraman* as supervisor and chairman of the *LPD* supervisor is automatic, because of his position as a head or chairman. With reference of Thoha (1983) it is reasonable, because head of *desa pakraman* is basically a figurehead of *desa pakraman*. In a sense, because of its formal authority, head of *desa pakraman* is a symbol of whole village so that its presence in the *LPD* as a supervisor is to affirm that the *LPD* is owned by the village.

Position under the head of village in the *LPD* organizational structure *LPD* is the board consisting of the Head of *LPD*, Cashier, Administration, and Roving/field Officer. The head of *LPD* is the board whose duties doing managerial activities in the *LPD*. In connection with that, then head of *LPD* handle a variety of activities related to management functions, such the functions of planning, the function of organizing, the function directing, and controlling.

Function of planning is role-related to head of *LPD* in preparing the Work Plan and *LPD* Budget Plan (*RAPB*) for a period of one year. Function of organizing, seen in action of head of *LPD* synergizing the existing components in the body of *LPD* organization, namely human resources, material resources, financial resources, technology resources, and information resources. Functions of directing, seen at the action of head of *LPD* conducting operational activities and to ensure its staffs in carrying out the powers and duties optimally. Function of controlling can be seen in action of head of *LPD* to control the *LPD* staffs formally and non formally, including the sanctions that they adhere to the procedures and policies that have been outlined.

Boards of *LPD* that is structurally under the Head of *LPD* is the administration staffs. However, the role of administration is no less important than the role of Head of *LPD*. The principal tasks of Administration are: 1) analyze customer credit applications, 2) save the file of customer credit application, 3) create a Letter of Credit Agreement and the Letter of Authorization for the provision of goods used as collateral by the customer, 4) save the debtor files, 5) create the receipt of credit decision making, 6) records of all customer payments, 7)

maintaining the general ledger, and 8) to prepare financial statements of LPD. From the various descriptions of the basic tasks can be seen that the administration staff is the board who run an accounting information systems of LPD (Atmadja, 2001.2006).

The cashier is board of LPD that structurally in a parallel position with the administration staff. Cashier has duty to administer the cash flow coming in and cash out every day and report to the administration. In addition, cashier can also serve transaction of savings, deposits, and loan repayments from customers. Thus, it can be concluded that the cashier is responsible for the LPD storage and cash management.

Roving or field officers or employees are commonly also called LPD staff who are on the lowest organizational structure and its number on each LPD depending on area and volume of their business activities. Number of officers circumference ranged between 4-6 people. They deal directly with customers through activities of collecting of savings, deposits and loans payments. In addition, roving officers also have a very large role in providing information about various services provided by LPD to the customers (Atmadja, 2001, 2006). Thus, although it is at the lowest position of the organizational structure of the LPD, the role of roving staff was great because in addition associated with customers, roving officers also carry out the functions of customer service for LPD.

Based on the above chart, as well as by observing the duties of each employee covered under the board of LPD, as supervisor of LPD did an external oversight, it can be concluded that the LPD has had the organizational structure with clear authority and responsibility as other financial institutions. Clarity of authority and responsibility is accompanied by supervision carried out by *desa pakraman* through its agents. These conditions distinguish LPD with other financial institutions as well as a key to success of LPD in achieving its purpose. In the next section will discuss the role of *desa pakraman* in supporting the success of LPD operational.

### **3. Inclusion of Social Capital by the *Desa Pakraman* as a Key Success of LPD**

LPD as an organization can achieve its success because it has a variety of functional requirements, such as: 1) the differentiation of roles, 2) the objectives, 3) its communication systems, and 4) its normative principles governing the organization's management (Roucek and Warren, 1984; Svalastoga, 1989; Sunarto, 2000; McEachern, 2001; Burn, Baumgatner and Devilie, 1987). Role differentiation has been demonstrated through the organizational structure in which the head of *desa pakraman*, Control institution, head of LPD, Cashier, Administration, and Roving Officer has the clear authority and responsibility.

As an economic institution, the purpose of establishing the LPD is a profit to survive and thrive in the long term (Roucek and Warren 1984; Sunarto, 2000:74-75, McEachern, 2001:64). Achievement of profit is related to other functional requirements of the communication. With reference to Tubbs and Moss (2001) communication is the delivery of verbal and nonverbal messages in order to realize the objectives of the institution. In the context of LPD, this communication can be smoothly established between LPD and other parties outside the LPD such as the customers, *desa pakraman*, village offices, etc.

The last requirement that is also very important to the success of an organization is the existence of normative principles (Kaplan and Manners, 1999). Normative principle outlined what should do and what not to do, both in action and communication so that the achievement of institutional objectives to be realized optimally. In cultural perspective as expressed in Geertz (1972) and Spradley (1972), normative principle that is an evaluative aspect of culture plays an important role for humans. Normative principle is a recipe for human beings to act in public life.

Accordingly, it also means that the life of economic institution, cannot be separated from normative principles. Normative principle can be derived from laws and regulations set by the state, or can also be derived from local culture. However, regardless of its form and origin of normative principles that apply in an institution, the same goal, which is guided by the behavior of the actors involved so that the achievement of more secure institution (Burns, Baumgartner and Deville, 1987).

Formal normative principle applicable to the LPD comes from local regulation, decree of the governor, the regulations issued by the Regional Development Bank, the accounting regulations, etc. In practice, formal normative principles are also accompanied by normative principles derived from social capital (Atmadja, 2006). With reference to Giddens (2003), Forse (2004) and Salviana (2003) social capital is social networks, value or informal norms prevailing in a group. Utilization of social capital is able to realize the trust, the expectations of order, honesty, solidarity and cooperative behavior (Fukuyama, 2002). Ownership of trust is always encourage members of the organization to continually work together to achieve the goal while trying to avoid conflict and competition (O'Brien and O'Fathaigh, 2004; Nugroho and Dahuri, 2004; Hari, 2005).

Utilization of social capital in the management of LPD is an aspect that distinguishes this financial institution with other financial institutions in general. Although every organization's social capital can grow, but social capital belong to LPD is very strong because it is sourced from *desa pakraman* of social networks within the village such, social kinship networks, patrilinear clan, hang together relationships, various groups, etc. In addition, social capital can also be *awig-awig* (village law) that governs both *desa pakraman* in general or LPD specifically.

Based on the findings Atmadja (2006), utilization of social capital in the management of LPD encourage high levels of compliance of *desa pakraman* members in using LPD service on formal normative principles imposed by the LPD. This condition is mainly caused by the presence of *awig awig* (village law) with a variety of sanctions that threaten any members that violate the formal rules of LPD. It makes the bad credits that involve members as LPD clients are rare. Compliance to the formal normative principle also happens to the boards of LPD. They always make honesty as the foundation in carrying out their duties so that the abuses committed by the boards of LPD are very rare.

The existence of normative principles derived from formal rules and social capital may ultimately strengthen the aspects covered in the social network, namely participation, cooperation, and solidarity in the LPD. Even other aspects related to social networks, namely the reciprocal exchange, can also be met by the LPD. This phenomenon is reflected by the fact that the villagers who comes to LPD get rewards, namely membership with the credit from LPD. Giving loan conducted by the LPD is not solely based on the calculation of the business but is also given based on the principles of trust and generosity. This is why the LPD can channel to villagers who really need a loan, for example, to fund cremation ritual, without following a complicated procedure, even without grace.

From the various descriptions of the above can be understood that the role of *desa pakraman* in investing their social capital become a key to success of the LPD. This success encouraged *desa pakraman* members to always take care of its social capital for the survival of LPD. Social capital that is always well-maintained, able to support the operational activities of LPD in achieving its economic goals. So forth like a cycle. This makes the LPD different from other financial institutions and relatively immune from the general problems in the banking world such as, bad credits and abuses by staffs (Bureau of Economic Affairs and Development, 2009).

Despite many successes occurred, but the presence of LPD as a pillar of *desa pakraman* economy, often still underestimated by the public. This is due to the assumption that the LPD as an economic institution operated in rural area are less prestigious compared to financial institutions such as banks, leasing and even cooperatives institution generally operate in urban areas. This condition implies to the low interest of young people who have higher education in working at LPD, so that the majority of LPD boards come from high school education background (Atmadja, 2009).

One cause of this assumption is the lack of socialization of existence of LPD in school. Socialization is needed primarily to provide an understanding of the existence of LPD, which in turn is expected to give a concern for LPD in the environment of the students. This paper will provide an alternative learning strategy that can be used to integrate the LPD in the learning process. Learning strategies will be addressed to Economic Subjects on the subject which deals with Banks and other Financial Institutions.

#### 4. Conclusion

Success of in implementing its mission has been seen in practice. The success is evident from the development of LPD assets to increase significantly. Increase of assets of course will ultimately lead to an increase in overall welfare of *desa pakraman*. LPD also has implications for economic success in the social aspects. This occurs when some of the benefits of LPD used to carry out a variety of philanthropic activities in *desa pakraman* such giving grants for ritual, scholarships, and donations to the development program for *desa pakraman*.

LPD achievements cannot be separated from the role of *desa pakraman* as owner of the LPD by including a variety of capital that are useful in the management of LPD. These capitals are the economic capital, human capital and social capital. Economic capital in the form of financial support derived from cash and obligation of all villagers. Support of other economic capital that is equally important is the provision of facilities that can be utilized by the LPD, such as land, buildings, equipment, etc.

Human capital is villager who is elected to be boards of LPD. As the boards and owner of LPD, villagers who work in LPD generally has integrity and a high spirit of service and be able to prevent the board from the temptation of misuse. This ability is due to the realization that any diversion is not only detrimental to self-harm but at the same LPD board itself as a party who have LPD. Human resources who have this awareness of course means essential to the success of LPD.

The last capital that is equally important is social capital. Social capital is social networks, values, norms which are owned by *desa pakraman* to encourage cooperation among all parties that interact together to achieve goals. In the context of the existence of social capital, LPD can give control to the two sides interact in the LPD, LPD clients and administrators to be able to act according to each rights and obligations. The existence of social capital is what distinguishes the LPD with other financial institutions as well as to free the LPD from classic problems faced by financial institutions such as bad credits and abuses by employees.

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