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Philosophy of Village Credit Institutions in Bali, Indonesia

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ABSTRACT: Village Credit Institution is a custom-based non-bank financial institution that grows and develops within the Pakraman Village structure in Bali. Based on the philosophy of Tri Hita Karana, LPD not only functions as a financial service provider for the village krama, but also plays a role in cultural preservation, financing of traditional activities, and socio-economic development of the community. Historically, LPDs were initiated through Bali Governor Decree No. 972 of 1984 and implemented as a pilot project since 1985, then gained legal legitimacy through various regional regulations, most recently through Bali Province Regional Regulation No. 3 of 2017. Unlike the profit-based Rural Banks (BPRs), LPDs prioritize social values, kinship, and spirituality in their operations. The purpose of this paper is to examine in depth the philosophy, legal basis, and strategic role of the Village Credit Institution (LPD) in Bali, both in the context of customary law and national economic law. This research uses a normative method with a statutory and conceptual approach to examine the existence of LPDs from the perspective of customary law and economic law. The results of the study show that LPD is a model of synergy between the customary law system and modern financial governance principles, while strengthening the role of indigenous peoples in the structure of national economic law.

KEYWORDS: Village Credit Institution, Customary Law, Pakraman Village.

I. INTRODUCTION

Village Credit Institution (hereinafter referred to as LPD) is a non-bank financial institution that has the largest assets in Bali, and has social and economic responsibilities in the village community. Regional Regulation Prov. Bali No. 3 Year 2017 regarding the third amendment to the Prov. Bali No. 4 of 2012 concerning LPD states that the strategic role of LPD as a community financial institution is a source of village finance by contributing 20% of net profits to village development funds, and 5% to social and cultural funds. Through LPD, the distribution of credit funds in the village can spur the development of income and welfare of the village community [1].

The existence of LPDs in Bali is a comparative advantage compared to other financial institutions, namely in the reality of services that are nuanced togetherness and kinship in Pakraman Village life. LPD is a financial business owned by Pakraman Village that carries out business activities in the village environment and for the village krama that has developed and provides social, economic, cultural benefits to its members. Thus, LPD must be fostered and improved its performance to improve the standard of living of the village community [2].

For this reason, it is interesting for the research team to examine the historical background as well as the philosophical meaning of the existence of this LPD. Considering the Regional Regulation of Prov. Bali No. 3 of 2001 concerning Pakraman Village, in the administration of the government can establish its own rules in the form of customary law (awig-awig or perarem), as a form of living folk law (living law) not only nuanced personal life (scale), but also nuanced religious magical (niskala), so as to create an inner atmosphere of obedience and honest behavior and loyalty that evokes a culture of shame (shame culture) among the village krama. The formulation of awig-awig or perarem desa is derived from the philosophy of Tri Hita Karana, which regulates the harmonious relationship between humans and God Almighty, humans and fellow humans, and humans and nature [3].

Imitating the concept of sekaa that has grown within the Balinese, Ida Bagus Mantra had the idea to establish a financial organization that has a customary foundation. Thus, the LPD was established with such a concept as an indigenous community financial institution that aims to provide assistance to indigenous villages in fulfilling their cultural functions [4].

Historically, the existence of LPDs in Bali actually began in 1985, when a 3-year pilot project was launched, from March 1985 to March 1988. At that time, as an initial step, the Bali Provincial Government formed 161 LPDs with a capital of Rp. 2,000,000, - (two million rupiah) each with the motive of formation, namely to maintain and preserve the culture in Bali and as a means to prosper the Pakraman Village community [5].

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Juridically, the legal basis for the establishment of LPD already existed a year earlier, on September 1, 1984, when the Governor of Bali issued the Decree of the Governor of Prov. Bali No. 972 of 1984. Furthermore, the legal basis of LPD was strengthened in the form of Regional Regulations, namely Perda Prov. Bali No. 8 of 2002 concerning Village Credit Institutions which was determined on September 12, 2002. After that, the legal basis of LPD underwent several changes, the last of which was regulated by Bali Prov. Regional Regulation No. 3 of 2017 [6].

Looking at the background description above, there is one thing that will be studied in this research, namely whether the philosophy of the existence of LPDs in Bali with a deeper study of aspects of customary law and economic law.

II. RESEARCH METHOD

This research is a legal research. The research method used is normative research method. Normative legal research is a method of legal research conducted by examining library materials which are secondary legal materials [9].

The collection of legal materials is carried out by analyzing legal issues, interviews, FGDs and documentation of legal materials needed in accordance with the legal issues that have been determined. This method was taken to find out the legal basis and philosophical basis for the existence of LPDs in Bali.

This research was also conducted using several approaches such as statutory and conceptual approaches. The statutory approach is used to examine what is the ratio legis of the formation of these rules [10].

The conceptual approach starts from the views and doctrines that develop in legal science [11]. This approach is used in examining several concepts such as the concept of awig-awig which is the basis that exists in Balinese customs into a rule of the Bali Provincial Government.

III. RESULTS AND DISCUSSION

All paragraphs must be indented. All paragraphs must be justified. As one of the provinces in Indonesia that is famous for its tourism industry, Bali not only presents natural beauty but also cultural wealth and hospitality of its people. Balinese culture has unique characteristics regarding strong religion and symbols of unity of indigenous peoples in performing religious rituals as a form of devotion to God (Ida Sang Hyang Widhi Wasa) [12]. To preserve customs and culture, traditional villages have an important role in ensuring traditions are passed on to the next generation in a systematic and sustainable manner.

In Bali there are two types of villages, namely Desa Adat and Desa Dinas. Desa Adat is a village whose function is inthe field of adat (a village that lives traditionally as the embodimentof adat institutions), while Desa Dinas itself refers to Law Number 4 of 2014 concerning Villages, which is part of the government sector, and is the smallest government institution. Desa Dinas is responsiblefor government affairs and general administration, such as population administration records, public services, infrastructure development, and village budget management from the government. The traditional village or in Balinese culture is called Desa Pakraman as a traditional customary institution of customary law communities in Bali that has an area, position, original structure, traditional rights, own property, traditions, manners of community life for generations in the bond of a sacred place (Kahyangan three or Kahyangan desa). Pakraman Village has a role to carry out development in various sectors, especially religion, culture, and society. Pakraman villages also have a role in fostering and developing Balinese cultural values, including regional language and literature. Pakraman villages have special rights in regulating and managing their own households as stipulated in Perda Prov. Bali No. 4 of 2019 concerning Customary Villages in Bali. As an autonomous community organization, Pakraman Village not only regulates in the scope of religion and socio-culture but includes all public services such as the economy of indigenous peoples. In realizing the welfare of the customary law community by providing economic, social and socio-cultural benefits to Krama Desa Pakraman, a forum for financial governance is needed through LPD.

A. The Philosophy of Village Credit Institutions in Bali

The concept of populist economy cannot be separated from the figure of Muhammad Hatta, a great economic thinker from Indonesia. He believed that by applying a populist economic system, especially through cooperatives, the economy could achieve glorious hopes. The realization of economic democracy oriented towards the welfare of the community is the main foundation that determines the pace of the economy and government order [13]. The people's economy is a system rooted in Pancasila as the characteristics of the Indonesian state is based on. The concept of populist economy initiated by Muhammad Hatta strongly upholds the value of social justice and prosperity. Its implementation encourages the Indonesian people to manage all economic activities independently, based on the principles of kinship and mutual cooperation.

People's economy does not only focus on short-term economic activities that benefit a few rich people. Rather, it is a comprehensive approach that takes into account qualitative, quantitative, financial,non-financial and environmental aspects. This political economy does not only pursue equity, growth, or stability, but emphasizes justice, participation, and sustainability of community economic actors [14]. Thus, populist economy can be interpreted as a system that involves all levels of society in development. The goal isto improve economic welfare by upholding justice, economic democracy, and siding with the people. This system is supported by a fair market mechanism and full participation from every element of society. The populist economic system contained in Article 33 of the 1945 Constitution, is based on three main principles, namely:

a. The principle of kinship, the economy must be structured as a joint venture. This principle is a reference for all business entities, both BUMN, BUMD, and BUMS.
b. Principle of Justice, a populist economic system must create social justice. The goal is to provide equal opportunities for every citizen, regardless of ethnicity, religion, or gender, both as consumers, entrepreneurs, and workers.
c. The Principle of Income Equality, economic development must be felt equally by all people. High economic growth will be meaningless if it is only enjoyed by a handful of large entrepreneurs, while the majority of people do not feel an increase in income.

The populist economy has been implemented since the Reformation in 1999 Indonesia through the Assembly of the People's Consultative Assembly (MPR) of the Republic of Indonesia stipulated in Number IV/MPR/1999 which discusses related to the Guidelines for State Policy (GBHN), the government center establishes the concept of the People's Economy as the country's economicsystem. The purpose of implementing thissystem is to foster economic welfare and prosperity of the people as a whole, by involving all levels of society in nationaldevelopment efforts that are democratic, in favor of the people, and uphold socialjustice for all citizens [15]. But long before that in 1984 Ida Bagus Mantra as Governor of Bali at the time pioneered the establishment of LPD. Before LPDs were present, micro, small, and medium enterprises (MSMEs) in Bali such as farmers, fishermen, and women in the village faced difficulties in accessing bank loans due to collateral requirements. This constraint encouraged many villagers to seek shortcuts by borrowing capital from moneylenders, which in turn made it difficult for them to repay their debts. He came up with this idea after studying several models of microfinance institutions, includingone in West Sumatra. After attending a seminar on Village Financial Institutions (LKD) or Village Credit Board (BKD) in Semarang, he thought that Bali had the potential and opportunity to establish a financial institution managed by a traditional institution or pakraman like the one in West Sumatra. Where LPD is designed as a financial institution based on the Traditional Village and is subject to customary law called "Awig-Awig" both in writing and unwritten.

Decree of the Governor of the Province of Bali No. 972/1984 on the Establishment of Village Credit Institutions in the Province of Bali (hereinafter referred to as Governor'sDecree No. 972/1984) is the foundation of LPD. Based on Governor's Decree No. 972/1984, the Bali Provincial Government issued Bali Regional Regulation No. 8 of 2002 concerning Village Credit Institutions. This regulation was later revoked and replaced by Bali Provincial Regulation No. 3/2017 on Village Credit Institutions (Perda LPD), which is the current legal basis for LPDs.

Article 1 point 9 of the LPD Regional Regulation states that the Village Credit Institution is a financial institution owned by the Pakraman Village which is domiciled in the Pakraman Village administration. In general, financial institutions are business entities in the financial sector that function as a community in fulfilling their life needs and financial institutions can be said to be financial intermediaries for the community [16]. In addition to providing credit loans to indigenous people, LPD also collects deposits in various forms, such as savings (daily savings or term savings), and deposits from the local indigenous village community.

As a financial institution managed by indigenous villages, LPDs have distinctive characteristics that are closely aligned with Balinese culture, namely their social, communal and religious nature. It is this cultural distinctiveness that distinguishes LPDs from other financial institutions. This shows that culture is very influential on the legal, social, and economic developments that grow in society. The existence of society as a social system is the main foundation of culture. When individuals live and interact over a long period of time, the pattern of interaction and social relations will form a culture. Thus, culture and society are two elements that cannot be separated.

LPDs have the function and purpose of establishing LPDs in rural economic development through improving the saving habits of villagers and providing credit for small-scale businesses, to eliminate forms of exploitation in credit relations, to create equal opportunities for business activities at the village level, and to increase the level of monetization in rural areas and have a significant impact on the economic progress of indigenous village communities [17].

Culture is defined by J.W.M. Barker as the creation, organization, and management of human values. Meanwhile, Koentjaraningrat argues that culture includes all human ideas and works obtained through the learning process, as well as the results of his ethics. Based on these definitions, it can be concluded that culture is a human work that aims for humanity, based on morals and nobility. Culture that lives in the community has a great influence on its development, one of which is seen in LPD. As a financial institution owned by a traditional village, LPD was established, developed, and managed based on Balinese cultural values and local wisdom, such as togetherness, kinship, gotong royong, and mutual benefit. All of these values are framed by Balinese customs and culture [18]. Customs and culture play a central role in regulating the social and economic life of the people in Bali. Policies made by traditional leaders are strictly adhered to by citizens. The establishment of LPD, which is characterized by a family system managed by Desa Adat with financial services based on the principles of reciprocity and mutual trust, was well received by the Balinese people. This is due to the suitability of customs and culture that grow in the community itself. As the largest adherent of Hinduism in Indonesia, Balinese culture cannot be separated from the teachings of Hinduism. One of them is the philosophy of Tri Hita Karana, a philosophical concept in Hinduism that teaches that true happiness and well-being can be achieved through the maintenance of the three relationships in balance. This concept teaches an essential relationship regarding three things, namely [19]:

a) **Parahyangan**, teaches the importance of maintaining a harmonious relationship with God (Ida Sang Hyang Widhi Wasa). This relationship is realized in the form of gratitude for all the gifts that have been given, as well as through the implementation of obligations as His creation. This balance is the spiritual foundation for human life.

b) **Pawongan**, emphasizes the importance of creating harmonious relationships between people. This concept is based on the belief that every individual has equal dignity. Through the teachings of Karma Yoga, humans are invited to achieve their life goals by working and interacting positively, respecting and uniting with others.

c) **Palemahan**, focuses on the relationship between humans and their environment. This concept teaches that nature is the source of life for all creatures. Therefore, humans have an obligation to protect, respect and preserve nature. This awarenessof nature's vital role will influence human attitudes and behavior, both in individual life and in the wider social sphere.

Tri Hita Karana is also applied to the implementation of LPDs where the principle of Parahyangan is realized through management based on spiritual values and honesty. Every LPD activity, from service to decision-making, is carried out with integrity. Profits earned by LPDs are also partially set aside for village religious activities, such as traditional ceremonies or the maintenance of shrines, as a form of gratitude to God. In addition, the Pawongan aspect is the core of LPD operations as a financial institution owned by the indigenous village community. LPD functions to improve the economic welfare of its community members. The services provided by LPDs are oriented towards convenience and justice for all villagers, regardless of social status. Loans are often tailored to the real needs of the village community, not justfor profit. This strengthens social relations and mutual trust among villagers.

At the beginning of its establishment, there was only one LPD in each regency. Rapid development prompted the establishment of a regulation, namely Regional Regulation of Bali Level I Number 2 of 1988 concerning Village Credit Institutions. To ensure effective control over the management and performance of LPDs, Bali Level I Regional Regulation No. 199 of 1997 established the Bali Level I Provincial Village Credit Institution Board of Trustees. In addition to being responsible for guidance and supervision, the LPD Supervisory Board also evaluates the results of the annual report of each LPD as a reference for further guidance. LPD as a pioneer of the inclusive financial system in Bali contributed greatly to the regional economy in 2025 the number of LPDs in Bali was recorded at around 1,439 units with total assets reaching 33.7 trillion [20].

The rapid growth of LPDs in Bali over the 40 years since its establishment cannot be separated from the enthusiasm of the Balinese traditional village community for LPDs which is very high. This is because this institution provides them with convenience in obtaining loans to develop their businesses. In Badung Regency and Denpasar City, most of the businesses depend on the tourism sector. However, several times Bali's tourism sector has experienced a decline due to the Bali bombings I and II, to the COVID-19 pandemic. The decline in the number of tourists certainly has an impact on the community's economy, especially for medium-sized businesses and workers in the informal sector. Only business owners who have strong capital are able to develop their business, or at least maintain their business routine. Business owners with small capital are only just surviving or even going out of business in the face of intense business competition in this sector, and there are many of them. This is due to the constraints faced in accessing capital from banks or other formal financial institutions.

In some areas that depend on agricultural products such as those in Karangasem Regency, Klungkung Regency and Tabanan Regency, LPDs make a significant contribution to the economic development of rural communities. LPDs provide access to business capital needed to finance various economic activities. With the existence of LPDs, people can obtain credit for working capital or investment, which in turn can increase people's purchasing power. so that the existence of LPDs is expected that financial management in Traditional Villages can be managed professionally.

B. Impact of the existence of Village Credit Institutions in Bali from the Aspects of Economic Law

In national law, the status of the LPD was originally a Rural Bank (BPR) as stipulated in Article 58 of Law No. 7 of 1992 jo. Law Number 10 of 1998 on Banking. Therefore, the management of LPD refers to the rules on BPR. BPR as a legal entity in the form of a Limited Liability Company, conducts financial activities with the aim of making profits for the benefit of shareholders. This is certainly different from the philosophy of the formation of LPD which adheres to the Tri Hita Karana system.

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Lembaga Perkreditan Desa (LPD) is a financial institution based on traditional villages and managed directly by the traditional village community itself. The existence of LPD cannot be separated from the existence of indigenous villages in Bali, because in addition to functioning as a financial institution, LPD also plays an important role in supporting the cultural and economic growth of indigenous villages as national assets. LPDs collect funds from the indigenous community in the form of savings, deposits, and deposits, and provide loans with lighter terms than formal financial institutions, but are limited to the indigenous village krama. Legally, the existence of LPDs is recognized in Article 39 paragraph (3) of Law Number 1 of 2013 concerning Microfinance Institutions, and juridically strengthened through Bali Province Regional Regulation Number 4 of 2019 which stipulates a change in the name of LPD to "Labda Pacingkreman Desa Adat (LPD)" as a form of adjustment to the development of customary law and formal recognition of its role in the social and economic structure of traditional villages.

In Article 13 letter a of Law No. 7 of 1992 concerning Banking as amended by Law No. 10 of 1998, it is stated that the Rural Bank (BPR) in carrying out its business has the main task of collecting funds from the public. This provision shows that BPRs have a strategic role in supporting the economic activities of the community, especially on a small and medium scale. The term "community" in the article can be interpreted broadly, which includes all levels of the general public who need banking services, especially those in rural areas or who have not been fully reached by commercial bank services. Thus, BPR functions as an intermediary institution that bridges the funding and saving needs of the community, and helps to promote equitable economic development at the grassroots level. The differences in status and position can be distinguished as follows [21]:

1) The main foundation for the establishment of LPD is awig-awig, while BPR was established based on Law Number 10 of 1998 concerning Banking;
2) The initiative for the establishment of LPD comes from the krama of the pakraman village, while BPR is formed by an individual or group of people;
3) LPD capital consists of pakraman village deposits, government assistance, retained earnings, and other non-binding sources. BPR capital is obtained through shareholder funds, grants, issuance of bonds or other debt securities, loans, securities issuance on the stock exchange, and other legitimate business sectors;
4) The LPD organizational apparatus consists of the Pakraman Village Paruman, Bendesa and Prajuru, and the LPD Chairman. The BPR organizational apparatus consists of the General Meeting of Shareholders, Commissioners, and Directors;
5) The scope of LPD's operational area is limited to the Pakraman Village environment, while BPR can reach all parts of Indonesia;
6) LPD is a non-profit institution that is socio-cultural-religious in nature, while BPR in the form of a Limited Liability Company is profit-oriented;
7) LPD allocates 60% of its profits for capital management and 40% is allocated to fulfill its responsibilities and obligations to the village pakraman (physical / scale and non-physical / scale). BPR does not have such responsibilities, BPR divides profits among shareholders according to the percentage of shares owned.

The regulation of LPD profit sharing is regulated in Article 22 paragraph 1 of Prov. Bali No. 3 Year 2007 regarding the Amendment to the Prov. Bali No. 8 of 2002 concerning LPDs, which provides a legal basis for the distribution of profits after being divided by the fulfillment of village needs. The aim is to maintain the financial health of LPDs, ensure benefits for the traditional village krama, and support social activities and village development. This regulation also encourages transparent, accountable and fair management.

The utilization of LPDs in Bali reflects changes in the legal culture of village communities in understanding and implementing financial systems that are integrated with local wisdom. LPDs became a transitional instrument from informal lending practices to a more regulated and responsible financial mechanism, where communities began to understand the concept of interest, timeframes, and legal responsibilities in economic activities. Although based on customary law that upholds the values of gotong royong and deliberation, LPDs also adopt modern governance principles, such as accountability, transparency, and risk management. Thus, the LPD is a form of synergy between a modern financial system and traditional culture that supports the economic empowerment of village communities.

Recognition of the existence of LPDs based on customary law means that their management and regulation are fully under the authority of the respective Pakraman villages. This affirmation shows that LPD has a special status because it is the full property (duwe) of the pakraman village, so that its regulation should follow the provisions of Balinese customary law, not subject to regulations outside the framework of customary law. Since its inception, LPD has indeed been based on the principles of customary law. This can be seen from the establishment process, which always begins with the decision of the Pakraman village paruman, as well as the requirement that Pakraman villages that want to establish LPDs must first have awig-awig. In the context of Balinese customary law, the decision of the village pakraman paruman is a legal and binding part. Furthermore, in reality, many traditional villages also establish LPDs as part of the assets belonging to the Pakraman village or "duwe desa" [22].

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The basis for the establishment of LPDs was initially based on a Decree of the Governor of Bali which was later strengthened through a Regional Regulation. However, the existence of the Regional Regulation does not necessarily authorize the government to intervene in the management of LPDs. Regional Regulations should function as a form of protection and protection of the existence of customary law communities, not as an instrument to regulate or control the custom itself. It should be recognized that in the early days of LPD establishment, the understanding of the position of LPDs as part of the customary law system was not fully mature. This is reflected in Regional Regulation No. 2 of 1988 on LPDs, which at the time regulated too far, even to the technical aspects of management that should have been the domain of the customary village itself. Regional Regulation No. 3/2017 is still in effect in accordance with the provisions in Article 103 of Regional Regulation No. 4/2019. The article states that this Regional Regulation will remain in effect until the issuance of a new regional regulation that specifically regulates Village Credit Institutions (LPDs), as stipulated in Article 61 paragraph (3). This condition reflects the continuity in the regulatory framework governing the management of LPDs, thus providing a clear and stable legal basis for the implementation of the duties and functions of LPDs at the customary village level. Juridically, LPDs are recognized in local regulations and legislation, including Law No. 1 Year 2013, which confirms that LPDs remain subject to customary law and are not directly regulated by the Law, although implementation still faces obstacles in harmonization between awig-awig and formal regulations.

As a custom-based financial institution, LPDs make a real contribution to the development of economic law in Indonesia. First, LPDs encourage local economic empowerment through inclusive financial access for indigenous village communities. Second, LPDs are a form of integration between the customary legal system and the formal economic system, creating an institutional model based on cultural values. Third, LPDs act as an alternative to conventional financial institutions, thus expanding the structure of economic institutions within the national legal framework. Fourth, its existence encourages legal recognition of traditional institutions in the legislative system. Fifth, through its financial practices, the LPD helps shape the legal culture and economic awareness of the village community. Thus, LPD not only functions as a financial institution, but also as a strategic instrument in strengthening the economic legal system based on local wisdom.

C. The Impact of Village Credit Institutions in Bali from the Aspects of Customary Law

LPD is one of the institutional elements formed to manage the financial potential of Pakraman villages to fulfill the needs and promote the welfare of village communities based on custom and culture. The existence of LPD has a very crucial role for Pakraman villages, not only in advancing economic aspects but also social and cultural aspects. LPD also carries a deep social mission in Pakraman villages. Apart from being an access to business capital and education funds, LPD also provides funds to finance various Hindu traditional and religious ceremonies, which are not small in number such as marriage costs, ngaben (funeral pyres). LPD is not only profit-oriented, but also based on the principles of kinship and togetherness. This role is in line with human nature as social beings who need each other. Although the traditional village has a village treasury (kas guna kaya) that can be used for the needs of traditional ceremonies and the economic needs of the community,the kas guna kaya funds come from seasonal sekaa or traditional groups from an economic perspective, such as sekaa memula, sekaa mejukut, and sekaa manyi, which at a certain time the results will be shared together. Once the funds are exhausted, each sekaa will start collecting again and so on. Such economic behavior leads to stagnation in the sekaa [23].

Thus, the existence of LPDs continues to grow and demonstrates how deeply rooted this institution is in the lives of Balinese people. This approach ensures that the success of LPDs is not only measured in financial terms, but also in terms of its contribution to the social welfare of the community. The LPD system is highly relevant to the culture of gotong royong upheld in Bali, especially through the existence of traditional banjars. LPDs exist as financial institutions that are unique and specific to Bali, and play a role in maintaining and preserving local culture. The existence of LPDs strengthens Bali's cultural identity, which is attractive and unique in the international arena. The Balinese culture of tolerance and inclusiveness is also reflected in the implementation of LPDs by expanding access to financial services. This allows individuals who are not Krama Desa Adat such as migrants domiciled in the village area to become debtors. To access this service, non-Krama Desa Adat debtors must fulfill several requirements, including presenting a written guarantee from the Kelian Banjar confirming their residency status and business presence in the area, as well as fulfilling other general requirements. This tolerance not only positions the LPD as a capital alternative but this positive contribution makes it one of the main pillars of the village economy and the overall progress of Bali.

Balinese custom teaches people to adhere to their obligations as members of a traditional village, namely to carry out ayahan desa (village krama duties) and to obey traditional village regulations (awig-awig). One of these rules is to uphold the good name of the traditional village by being honest. This honesty is then used as the basis in the process of financial services in LPD. Balinese people's compliance with customary regulations is very high, so they obey customary sanctions more than positive legal sanctions. They consider exile by the traditional village as the worst punishment to avoid. Therefore, they are very careful in their daily lives, including when conducting economic activities [24]. Indigenous peoples' adherence to awig-awig is driven by the existence of krama desa, which is a common feeling and strong bond among indigenous villagers.

The position of villages as implementers of regional autonomy is regulated in Law No. 6/2014 on Villages. Thus, the village is recognized as an administrative area that has the autonomy to manage its own potential and territory [25]. This condition shows that Pakraman villages through prajuru (administrators), as legal subjects, are fully responsiblefor protecting and nurturing their citizens. LPD is one of the real programs of Pakraman villages in an effort to improve the welfare of the community. As a financial institution owned by the traditional village (druwen desa), Pakraman Village has important authority in the establishment, management, and supervision of LPD. The establishment of LPDs is not only based on Regional Regulations as a rule of positive state law, but also on awig-awig Desa Adat as customary law which contains certain functions and objectives. The functions of the LPD establishment include:

a. The utilization of LPD as an operational unit that acts as a forum for managing village assets in the form of money and other securities.
b. Empowering LPDs to support various businesses related to village interests and improving the welfare of the village community.

Desa Adat in Bali has a distinctive and autonomous government structure. The governance of Desa Adat is regulated in detail in Bali Province Regional Regulation Number 4 of 2019. This regulation emphasizes the application of five main principles of good governance, namely:

a) Transparency, clear and accurate information must be provided to the public.
b) Accountability, every member of the village is held accountable for their actions and decisions.
c) Responsibility, village activities should be conducted ethically and in compliance with applicable laws.
d) Independence, decisions should be made objectively without external influences that could create a conflict of interest.
e) Fairness, all members of the indigenous community should be treated fairly and equally.

The application of these principles is critical to the sustainability and well-being of indigenous villages. Effective and transparent governance can build community trust, and optimize the utilization of village resources [26]. Good management also allows indigenous villages to face modernization without sacrificing their cultural identity and values, so that the uniqueness of Bali remains an international attraction.

Initially, LPD operations were led by Bendesa Adat, the highest authority in the Desa Adat. The Bendesa chaired the Kelian-Kelian Banjar in one traditional environment, called Desa Adat. But along with the rapid development of LPD since 1990 Bendesa Adat is no longer the leader of LPD. This aims to give LPD more professionalism because along with its rapid growth, its financial and operational management has become increasingly complex. LPDs are now required to be managed professionally, transparently and accountably. In addition, as the highest leader in the Customary Village, the role of Bendesa Adat is ideally as a supervisor or guarantor for all institutions under him, including LPDs. This shift in authority is an effort to prevent conflicts of interest and abuse. The separation of powers between managers (administrators) and supervisors (supervisory bodies) is very important to prevent abuse of authority and potential misappropriation of funds. So that supervision of LPDs can run more independently and effectively. Bendesa Adat now acts as chairman of the LPD Supervisory Board, ensuring that LPDs run in accordance with the awig-awig and Regional Regulations of Bali Province, and continue to provide maximum benefits to the customary village community.

LPDs are managed by administrators as stipulated in the Bali Prov. Bali No. 3 Year 2017 which is then appointed based on the results of the paruman (deliberation) of the Traditional Village. LPD administrators are residents from each Banjar in one Indigenous Village, and have an Indigenous Village LPD Supervisory Board consisting of all Kelian Banjar in the relevant Indigenous Village. This is to avoid suspicion of each other in its management, and to fulfill a sense of justice, because basically the LPD is a village druwen (village property) which is expressly written in the awig- awig of the Desa Adat [27].

Morally and legally, customary villages have the authority to resolve disputes in their territory. This settlement is carried out in accordance with awig-awig and local customs, with the aim of maintaining harmony and tolerance between village krama [28]. In this case, the implementation of LPD is subject to awig-awig as the basic rules agreed upon by all villagers and serves as the village constitution and paparem is a specific rule made by the village to regulate certain matters, including the procedure for resolving disputes between LPD and its customers. Despite the existence of juridical rules such as Bali Governor Regulation No. 44/2017, indigenous people prefer to resolve disputes through adat. Dispute resolution through a customary approach is an alternative to dispute resolution that occurs in the community. The goal isto restore harmony, harmony, and balance in community life.

In the process of resolving disputes related to bad debts and other problems related to LPDs, the process begins with a deliberation led by the LPD Supervisory Board. If this mediation is unsuccessful, the problem will be forwarded to Bendesa Adat and Prajuru Desa Adat. Settlement at this stage is based on awig-awig with the aim of reaching a fair agreement, not one-sided, and witnessed by the entire village community to maintain community harmony. As a last resort, disputes can be resolved through the general court system if mediation is unsuccessful. However, so far, dispute resolution regarding LPD has never taken the litigation route because LPD as part of a customary institution upholds a sense of kinship [29]. The impact of LPD from the aspect of customary law in Bali is not only as a financial institution that is a pillar of the economy of traditional villages but also as a recognition and strengthening of local wisdom. LPD participates in upholding awig-awig as a form of preserving the culture of the traditional village krama (citizens).

IV. CONCULUSION

Desa Adat in Bali plays an important role in maintaining culture and tradition, especially in religious ceremonies, as well as driving the community's economy through the Village Credit Institution (LPD). Unlike Desa Dinas, which focuses on government administration, Desa Adat emphasizes local values. The LPD, which was established in 1984 and is based on the Tri Hita Karana philosophy, is a concrete implementation of a populist economic system that is in line with Pancasila and Article 33 of the 1945 Constitution. In addition to providing access to capital for people unreached by formal banking, LPDs also fund traditional and religious activities, making them institutions that play a role in economic, social and cultural aspects simultaneously.

Lembaga Perkreditan Desa (LPD) is a financial institution that grows from the cultural roots and customary laws of Pakraman villages. Unlike the Bank Perkreditan Rakyat (BPR) which is based on the national legal system and profit-oriented, LPD prioritizes social, cultural, and spiritual values in its financial management, in line with the philosophy of Tri Hita Karana. Juridically, LPDs have gained recognition through Laws and Regional Regulations, while still placing customary law as its main basis. Its development not only strengthens the legal position of customary institutions in the national economic system, but also shows that customary law is able to transform and synergize with modern principles such as accountability, transparency and efficiency. Thus, LPD plays a dual role as the driving force of the village economy and at the same time as a pillar of preserving local legal culture within the framework of Indonesian economic law.

LPDs in Bali not only function as traditional financial institutions, but also play a strategic role in strengthening the economy, preserving culture, and enforcing customary law in Pakraman villages. Based on the principles of kinship, gotong royong, and honesty, LPD is a means of fulfilling the economic and social needs of the community, including financing traditional ceremonies. With governance that emphasizes transparency and accountability, as well as strong supervision from customary structures, LPDs are managed professionally while remaining grounded in local values. Its existence strengthens Bali's cultural identity, provides access to inclusive finance, and symbolizes the successful integration of custom and modernity. Dispute resolution prioritizes customary deliberation over formal legal channels, demonstrating LPD's role as a key pillar bridging customary law, community welfare, and the preservation of Balinese culture.

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