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Legal Review of the Village Labda Pencingkreman (LPD) on the Status of Credit Rights in the Savings and Loan Process

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Abstract: The increasing national development, which is based on the economic sector, transforms potential economic power into real economic strength by utilizing available capital facilities as the main support for this development. This requires a substantial amount of funding. To finance and ensure its proper distribution, credit-based funds are an essential means of financing. In 1984, the Governor of Bali established a rural financial institution to eliminate the ijon system and improve the rural economy. The management and ownership of this financial institution were entrusted entirely to the respective traditional villages (desa adat). Since its inception, the financial institution known as Lembaga Perkreditan Desa (LPD) has grown significantly. The increasing number of traditional villages in Bali that own LPDs demonstrates this growth, and the community has gradually felt its benefits. However, there are still shortcomings in its operations, particularly regarding credit agreements and mortgage rights. This study aims to examine the legal position of LPD in relation to mortgage rights in the loan and savings process and to understand the legal strength of LPD in credit agreements. The method used in this research is normative with regulatory, case, historical, comparative, and contextual approaches. The findings are expected to contribute to civil law literacy and serve as a reference for regulations related to LPD.

Keywords: Lembaga Perkreditan Desa (LPD); Credit; Mortgage rights; Rural economy; Credit agreement.

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Introduction

To support national development, substantial funds are essential, particularly in the economic sector, which serves as a catalyst for transforming potential resources into real economic power. The role of financial institutions in this transformation is pivotal; they collect funds from the community, which are then distributed in the form of credit, ensuring these resources are channeled into productive economic activities. Through this mechanism, financial institutions, such as banks and non-bank financial entities, play a vital role in mobilizing public funds, thereby creating a sustainable flow of capital for development initiatives.

In the context of rural development and financial inclusivity, the establishment of community-centric financial institutions has been a significant step towards enhancing economic growth in underserved areas. For instance, to combat the exploitative "ijon" system — a traditional practice that involves selling future crops at significantly reduced prices to secure immediate funds — and to strengthen the rural economy, the Governor of Bali introduced a novel financial model in 1984. This led to the creation of the Village Credit Institution (Lembaga Perkreditan Desa, or LPD). This institution was distinct in that it was not only financially beneficial but also culturally aligned, as each LPD was owned and managed by the traditional village (desa adat) itself. The goal was to support rural economic activities in a way that would both respect and enhance local traditions and autonomy. "*Rural financial institutions are uniquely positioned to address local economic challenges, yet they often require stronger regulatory frameworks to ensure accountability and financial stability*." (Martinez, L., & Rosa, S. 2021)

Since its inception, the LPD has witnessed remarkable growth, with an increasing number of traditional villages in Bali establishing their own LPDs, thereby providing rural communities with accessible financial services. By 2019, the institution had evolved under the Bali Provincial Regulation Number 4, which renamed it as Labda Pencinkreman Desa (LPD). Although the name changed, its primary functions and regulatory framework remained consistent, focusing on empowering village-based economic activities. According to Article 2 of the Bali Provincial Regulation Number 8 of 2002, an LPD is defined as a financial institution owned by the village, designed to serve its community and foster local economic development. Recognized as a trustworthy economic entity, the LPD operates within a framework regulated by regional policies, ensuring that each village has one such institution that serves as a savings and loan entity dedicated to that village alone.

Despite these regulations, certain operational challenges persist. For instance, some LPDs have reportedly extended credit to individuals outside their designated communities, an action that deviates from their intended scope. As credit providers, LPDs encounter various obstacles, including managing credit disbursement, which often requires customers to present collateral. This process is similar to the challenges faced by larger financial institutions, yet the LPD's regulatory environment is tailored to meet the unique needs of village economies. Collateral plays a critical role in these credit agreements, establishing a framework where debtor and creditor rights and obligations are clearly defined to ensure mutual compliance. This security measure not only protects the LPD but also instills a sense of responsibility in debtors to fulfill their obligations.

Additionally, while the investment of funds in the form of credit can yield significant interest returns for the LPD, there is also a risk associated with non-performing loans, particularly when debtors are unable to repay. Collateral becomes a vital safeguard, mitigating the risk of loss for the institution and ensuring financial stability. "In the context of rural financial development, traditional financial institutions play a crucial role in enhancing local economic stability through collateralized loans, providing a framework for managing financial risks in rural economies." (Johnson, S., & Rogaly, 2021).

Problem Research and Method Research

The term legal state is a funding from the term Rechtstaat, the Rule of law, or socialist legality. Even conceptually, until now there are five main concepts of the legal state, namely Rechtstaat, Rule of law, Socialist Legality, Islamic Nomocracy, and Pancasila Legal State (Bambang Sutiyoso dan Sri Hastuti Puspitasari, 2005, H. 2). The state of the Republic of Indonesia is founded on law based on Pancasila and the 1945 Constitution (Sjachran Basah, 1985, P. 11), which aims to achieve a just and prosperous society, both materially and spiritually, evenly across all levels of society. "*Collateral in credit agreements ensures the creditor's rights in the event of a default, especially in community-based financial systems where trust and local governance play a significant role*." (Khan, A., & Memon, R. 2020)

Based on the general explanation of number 1 of the 1945 Constitution, it states that the State of Indonesia is based on law (rechrsraat) not based on mere power (machzstaat). This is also clarified through the 3rd amendment to the 1945 Constitution, Article 1 paragraph 3, which states that the State of Indonesia is a state of law. As a state of law, our country adheres to a legal teaching (Ismail Suny, 1984,H. 8). According to Imanuel Kant, to be called a state of law, it must have two main elements, namely the protection of human rights, the separation of powers in the state (Moh. Kusnardi and Bintan R Saragih, 2000, P.132). This idea was further developed by F.J. Stahl, by adding two more elements, namely every state action must be based on law and the existence of state administrative justice. By strengthening the principle of liberalism put forward by Rousseau, which emphasizes the elements of a state of law, so that the formulation becomes. There is a guarantee of human rights/basic human rights; There is a separation of powers; Government based on law/statutes (principle of legality); The existence of state administrative courts/state administration (Jimly Asshiddiqie, 2006, H.132) (Jimly Asshiddiqie, 2006, H. 151). In the concept of a state of law based on Pancasila, it is the concept of a state of law of the Republic of Indonesia which in general can be said to be a state that implements elements of a state of law inspired by the basic philosophy of the state and the outlook on life of the Indonesian nation, namely Pancasila and based on the 1945 Constitution as the highest legal regulation in the state (supremacy).

Thus, a regulation under the Constitution must be in accordance with or must not contradict the Constitution. So that lower regulations must not contradict the regulations above it, in this case, the law is hierarchical, which means that the lowest provisions must not contradict provisions of a higher degree, in accordance with Law Number 12 of 2011 concerning the Formation of Regulations. In relation to this research, this theory is used to examine whether the Regional Regulation governing Village Credit Institutions in Bali Province is in accordance with the Concept of the Legal State adopted in Indonesia, namely the Pancasila Legal State. In a state of law, the legal system must be structured in a hierarchical legal norm system and must not conflict with each other between legal norms, either vertically or horizontally. So that if there is a conflict between these norms then it will be subject to the norms logically, namely the basic norms contained in the constitution (Andi Mattalatta, 2009, H. 574). It can be understood from the description in Lawrence M. Friedman's legal system theory that the legal system consists of interacting legal subsystems, namely. (Achmad Ali, 2009, H. 204). Legal structure is the basis and is a real element of the legal system. The structure in a system is a permanent framework, or body element in the legal system. The structure in a system includes institutions created by the legal system with various functions. Legal substance is a rule or legal norm. Substance is composed of regulations regarding how institutions act. Legal culture includes people's opinions, beliefs, habits of thought, and actions regarding law and its various phenomena. Referring to Lawrence Meir Friedman's opinion regarding the theory of legal systems, Soerjono Soekanto stated that *"For instance, the formal legal institutions, their interactions, their rights and obligations, and so forth are all included in the structure, which is the container or form of the system. The content of legal standards, as well as their formulations and enforcement methods that are relevant to law enforcement and those seeking justice, are considered substance. In essence, the values that underpin applicable law are part of the legal culture (system), and these values are abstract notions of what is desirable (and therefore adhered to) and what is considered bad (and therefore avoided)."* (Soerjono Soekanto, 2011, H. 59). Law as social control from the government (law is governmental social control), as a rule and social process that tries to encourage behavior, both useful and prevent bad behavior. On the other hand, social control is a comprehensive network or rule and process that has legal consequences for certain behavior, for example general rules for unlawful acts.(Lawrence Friedman, H. 3)

In relation to this research, this theory is used to examine whether the Regional Regulations governing Village Credit Institutions in Bali Province are good in terms of the substance of the norms contained in the regulation, then research is carried out on the implementation of this Regional Regulation whether it can be implemented properly, both by Village Credit Institutions and related agencies that manage this This institution and finally whether the arrangements and structures that have been implemented so far can provide a change in the culture or legal culture in society.

According to Mahmul Siregar, legal certainty must cover all areas of law. Legal certainty does not only include legal certainty in substance but also legal certainty in its application (procedural law) in the decisions of judicial bodies. This theory is used to examine the issue of Regional Regulations on Village Credit Institutions, whether they can

provide legal certainty in carrying out financial management activities in the community, because it would be very dangerous if the institution that manages funds from the community turns out to be unable to provide guarantees for the security of the funds they entrust to this institution. In writing a scientific work, there is one determining component as a requirement used for searching data from the results of the scientific work, in this case is the research method. According to Sutrisno Hadi (Sutrisno jadi, 1979, H. 4) What is meant by methodology is a way/method to provide precise lines and put forward strict conditions, the meaning of which is to ensure that the knowledge achieved from research has the highest possible scientific value.

The writing of this proposal is done using a normative legal research method supported by empirical data as a complement. Normative or doctrinal legal research means: "this research uses legal materials as its main source" (Soerjono Soekanto and Sri Mamudji, 1985, P.14). Researchonlegalconcepts, legal systematics, vertical andhorizontalsynchronization, comparativelaw, and legal historyareallincluded in thisstudy. (Soerjono Soekanto, and Sri Mamudji, 2003, H. 13-15). As previously stated, this study falls under the category of normative research.The methods used to approach this problem are several methods known in normative legal research, including the statute approach, case approach, historical approach, comparative approach, and conceptual approach (Peter Mahmud Marzuki, 2000, p. 93). There are several approaches that can be used in this research, Considering the problem's history, which was disclosed in the preceding part. These approaches include analytical and conceptual approaches, statutory approaches, and comparative approaches. Encompassing the historical, comparative, conceptual, legislation, case, and historical approaches :

a. Primary legal materials, namely legal materials which are binding and consist of Civil Code (Burgerlijk Wetboek), Law Number 22 of 1999 concerning Regional Government; which was updated with Law Number 32 of 2004, and updated again with Law Number 23 of 2014, Law number 10 of 2004 concerning the formation of statutory regulations, updated by law number 12 of 2011, For example, First, Bali Province Regional Regulation Number 8 of 2002 pertaining to Village Credit Institutions (LPD); second, Bali Province Regional Regulation Number 4 of 2012 pertaining to Amendments; and third, Bali Province Regional Regulation Number 3 of 2007 pertaining to Amendments to Bali Province Regional Regulation Number 8 of 2002. Bali Governor Regulation Number 16 of 2008 Concerning the Management and Internal Supervision of Village Credit Institutions (Bali Province Regional News2008 Number 16). Bali Provincial Regulation Number 4 of 2019 concerning Traditional Villages).

b. Secondary legal materials explain primary legal materials such as draft laws, research, legal works, and so on (Soerjono Soekanto dan Sri Mamudji, H.13) . This study uses several secondary legal materials including research results, jurisprudence, books and works from legal experts that are relevant to this study¬;

c. Tertiary legal materials, such as dictionaries and encyclopedias, offer clarifications for primary and secondary legal materials.

This research uses interviews and normative methods to collect legal materials. An interview is a situation in which two people talk to each other while the interviewer asks questions intended to obtain answers about a research problem. (Amirudin dan Zainal Asikin, 2010,H.82). In this study, a planned interview technique was used, the questions asked in the interview were then developed further by deepening the information provided by the informant. This was done with the aim of obtaining more complex and detailed data regarding the problems to be studied. Those interviewed in this study included several heads of LPDs in Bali Province.

a. In this study Descriptive, interpretative, evaluative, and argumentative procedures are the types of legal material analysis that are used to draw conclusions after the legal materials have been gathered. The following explanation applies to each of these methods Descriptive technique, meaning a description of the actual descriptions of a condition or position of a legal or non-legal proposition.

b. Interpretative Technique, this technique is used by explaining the use of interpretation in legal science against existing norms both now and in the future. The interpretative technique used is grammatical interpretatie, namely interpretation or interpretation according to the meaning of words and systematiche interpretatie, namely interpretation carried out by seeking explanations in article by article of legislation.

c. Evaluative techniques, namely those carried out by conducting research on a view, opinion, statement or formulation of norms from both primary sources and secondary and tertiary legal sources.

Argumentative Technique, namely an analysis technique that is carried out based on reasons that are of a legal reasoning nature. In the legal problems studied, the deeper the argument, the deeper the legal reasoning. (Soerjono Soekanto, 2008, H. 252). "*Financial institutions rooted in traditional village governance structures can benefit from legal reforms that align customary practices with national regulatory frameworks.*" (Sharma, P., & Reed, E. 2019)

Analysis & Discussion

Village development is a crucial part of Indonesia's national development strategy, aimed at bridging the economic gap between rural and urban areas and enhancing rural welfare. Law Number 6 of 2014 on Villages empowers villages to manage their own affairs, establishing a legal foundation for village development. An essential element in achieving village self-reliance is the creation of local institutions, such as the Village Pencingkreman Institution. Derived from a regional term meaning "to guard or protect," this institution is tasked with ensuring village safety, order, and empowerment, fostering a secure environment for community activities. "*Village-based credit institutions, by leveraging community bonds and trust, reduce loan default risks, though they face distinct challenges compared to commercial banks*." (Wang, Q., & Li, Z. 2020)

The village government, led by the village head, plays a pivotal role in supporting these institutions by allocating funds from the Village Revenue and Expenditure Budget (APBDes) for operational needs, including security patrols and member training. Coordination between the Village Pencingkreman Institution, the Village Consultative Body (BPD), and other community organizations is critical for cohesive development efforts. Active community participation, such as volunteering in patrols and reporting threats, is essential for maintaining a safe and orderly village environment, contributing to effective village development.

Financial institutions are crucial in mobilizing and managing funds through various means such as savings, deposits, and investments, channeling these resources towards productive economic activities. By gathering funds from the public, they enable individuals and businesses to store value securely, earn interest, and access credit for personal and business needs. These institutions also manage risks through careful assessment of loans and investment portfolios, employing techniques like diversification, credit analysis, and risk hedging to reduce the likelihood of significant losses. Effective risk management is essential for maintaining financial stability, as it ensures that these institutions can meet their obligations to depositors and other stakeholders.

One of the primary functions of financial institutions is to provide liquidity, which is the availability of cash or assets that can quickly be converted into cash for meeting short-term obligations. This is vital for both individuals and businesses, as it allows them to access funds when needed, manage cash flow, and avoid disruptions in their financial operations. Additionally, financial institutions play an important role in improving the overall efficiency of the financial system. They do this by developing and implementing innovative financial products and services, such as electronic payments, mobile banking, and investment products tailored to diverse needs. These innovations simplify financial transactions, reduce costs, and improve accessibility for a broader range of customers, including those who may have previously lacked access to traditional banking services.

The rise of financial technology (fintech) has further expanded access to financial services, particularly for underserved populations and small businesses. By leveraging digital platforms, fintech companies reduce transaction costs and simplify processes, enabling more people to engage in savings, loans, and other financial activities. Fintech solutions also enhance transparency and speed in transactions, which fosters greater trust and engagement from users. Through these advancements, financial institutions contribute not only to financial inclusion but also to economic growth by channeling resources to sectors where they are most needed.

In supporting economic growth, financial institutions contribute significantly to job creation. By allocating funds to businesses and entrepreneurs efficiently, they enable business expansion, innovation, and employment opportunities. This efficient fund allocation is essential for a dynamic economy, as it channels capital into sectors with high growth potential, supporting new ventures, scaling existing businesses, and fostering a competitive environment that drives productivity. "*Legal reforms can empower rural financial entities by standardizing credit agreements, thus providing both security to creditors and assurance to borrowers.*" (Stevens, J., & Heller, R. 2019)

Financial institutions are generally classified into two main categories: banks and non-bank financial institutions (NBFIs). Banks are vital for the provision of loans, deposit collection, and payment processing, acting as intermediaries between savers and borrowers. Within the banking sector, there are various types, including commercial banks, Islamic banks, and rural banks. Commercial banks cater to a broad spectrum of clients, from individuals to large corporations, offering services like checking and savings accounts, loans, and credit cards. Islamic banks, meanwhile, operate based on Islamic principles that prohibit interest (riba) and emphasize profit-sharing agreements, serving customers who seek financial products compliant with Shariah law. Rural banks focus on serving communities in less urbanized areas, offering micro-loans, savings accounts, and other services to support local economic development.

In addition to banks, there are non-bank financial institutions (NBFIs), which provide specialized financial services that complement traditional banking. These institutions include insurance companies, finance companies, mutual funds, pension funds, leasing firms, and investment houses. For example, insurance companies offer financial protection against risks such as health issues, property loss, or accidents, giving individuals and businesses the security they need to manage unexpected events. Finance companies provide loans and credit, often catering to individuals and small businesses that may not have access to traditional banking. NBFIs play a significant role in diversifying the financial ecosystem by offering products and services that banks may not provide, thereby addressing specific needs and expanding financial reach.

Both banks and NBFIs are integral to a balanced financial ecosystem, as they complement each other's services. While banks are essential for basic banking services, such as deposits and loans, NBFIs fill gaps by offering specialized services that meet the unique needs of consumers and businesses. This complementary relationship strengthens the financial system, making it more resilient and responsive to the diverse requirements of individuals and businesses across different sectors.The legal framework ensures operational compliance and consumer protection in financial activities. Regulation aims to create fairness, order and stability in the financial system. Consumer rights are protected through transparency and accountability in financial transactions. The stability of the financial system is essential for national economic confidence. One of the main regulations is Law No. 8 of 2010 Financial institutions are required under the Prevention and Eradication of Money Laundering Crimes (TPPU) to report suspicious transactions that may be connected to money laundering or terrorism funding activities. Cooperation with the Financial Transaction. "*Strengthening collateral policies in rural credit systems is essential for risk management and sustainability of these institutions*." (Davis, R., & Morgan, P. 2022)

Reports and Analysis Center (PPATK) is very important. OJK has issued regulations for fintech and digital financial services. These regulations protect consumers and ensure transparency in digital financial operations. Pencingkreman is a traditional agreement involving land or goods as collateral for a loan. The lender can use the collateral until the debt is repaid. This institution facilitates credit agreements that are beneficial in rural development. Legal review is needed to align traditional practices with modern regulations, The rights and responsibilities of creditors are important factors. According to Article 1320 of the Civil Code, which governs the conditions necessary for a legally binding agreement, a credit agreement is a consensual agreement under Indonesian positive law. These prerequisites include the parties' consent, the ability to reach a consensus, a clear goal, and a valid reason. In the context of the pencingkreman institution, aspects of customary credit must be aligned with modern legal agreements, especially regarding the agreement, rights, and obligations of the parties involved. Harmonization between customary law and positive law is important forrelevance

The Village Loan Institution plays an important role in supporting various village economic programs, such as People's Business Credit (KUR), strengthening cooperatives, and community-based asset management. This institution acts as a facilitator, collateral manager, and mediator in village credit and asset issues. These programs help improve debtor compliance and optimize the use of village assets for the economic welfare of the community. In the legal context in Indonesia, mortgage rights are expressly regulated in Law No. 4 of 1996 with relation to Mortgage Rights on Land and Land-Related Objects (UUHT). The UUHT's Article 1 Paragraph 1 declares:

"In order to pay off certain obligations, a mortgage is a security right placed on land rights as defined by the Basic Agrarian Law, with or without other items that are an essential component of the land. This gives some creditors priority over other creditors."

The importance of financial training for rural communities is highlighted to help residents understand the basic principles of credit, collateral, and credit agreements, reducing the likelihood of disputes and misunderstandings in the credit process. By building this financial literacy, community members can make more informed decisions about borrowing and managing credit, fostering a more sustainable and responsible approach to finance within the rural setting. Financial training encompasses not only the fundamentals of credit and collateral but also emphasizes the responsibilities of both debtors and creditors, along with the consequences of default. This knowledge empowers communities to engage more confidently and responsibly in financial transactions with institutions such as the Village Pencingkreman Institution (LPD).

In addition to education, oversight of the LPD is crucial to maintaining public trust and ensuring transparent, accountable management of assets and credit. The supervision framework includes stringent requirements for accountability, periodic evaluations, and transparent financial reporting. Accountability mechanisms, such as audits and regular reviews, verify that the LPD's operations align with regulatory standards and the best interests of the community. Transparency, meanwhile, ensures that the institution's financial practices are visible to the public, reinforcing confidence in the integrity and sustainability of the LPD's services.

The growing role of the LPD in rural economic development is further supported through collaborations with government bodies, cooperatives, and private sector entities. These partnerships enable the LPD to leverage additional resources, expertise, and infrastructure to benefit village welfare. For example, the government may provide regulatory support, cooperatives can offer community networks, and private sector partnerships bring capital and innovative financial products. Together, these collaborations allow the LPD to adapt to the dynamics of the modern economy, ensuring that it continues to serve as a reliable financial resource for rural communities in an increasingly competitive and interconnected economic landscape.

A critical component of the LPD's credit system is the establishment of mortgage rights as collateral. For a mortgage right to be valid, several requirements must be met. These include subjective requirements, such as the legal capacity of the parties involved, ensuring that both the debtor and creditor have the legal standing to enter into the agreement. There must also be a valid and mutually agreed contract between the parties. Objective requirements must also be fulfilled, including the existence of a tangible asset (often property) that can serve as collateral, as well as a legally recognized debt that is being guaranteed by the mortgage.

Mortgage rights are formally recognized only after registration at the local land office, giving them executorial power a distinct legal authority that allows creditors to execute the collateral without requiring court intervention if the debtor defaults. This executorial nature of mortgage rights is particularly significant in the LPD's credit agreements, as it provides lenders with a layer of protection and assurance, ensuring they can recover their funds efficiently should the borrower fail to meet their repayment obligations. This legal instrument is crucial in mitigating the risk associated with credit transactions, offering a secure mechanism for creditors to claim their dues without lengthy legal processes.

The process of establishing a mortgage in a credit agreement involves not just the creditor and debtor but also the role of a notary. The notary is responsible for drafting and overseeing the legal documentation, ensuring that the mortgage arrangement complies with relevant laws and regulations. This involvement of a notary serves to enhance legal certainty in the credit transaction, safeguarding the interests of both the LPD and the borrower. The notary also provides clarity regarding the rights and obligations tied to the mortgage, helping to prevent future disputes and misunderstandings. "*Local credit institutions often struggle with regulatory challenges that impact their ability to enforce collateral agreements effectively, particularly in developing regions.*" (Adams, R., & Hastings, J. 2022)

For the Village Pencingkreman Institution (LPD), the use of mortgage rights not only facilitates greater access to credit by reducing the lender's risk but also contributes to economic growth by enabling borrowers to leverage their property for capital. This legal framework strengthens the overall structure of rural finance by providing legal recourse and security, reinforcing the stability and credibility of LPD as a financial institution. The combination of financial training, regulatory oversight, strategic partnerships, and robust legal frameworks thus positions the LPD as an essential contributor to rural economic development and resilience in Bali. "*Mortgage rights in village-based credit systems are crucial in securing loans and providing financial stability, helping mitigate risks associated with lending in underserved areas.*" (Robinson, K., & Wilson, T. 2023)

Conclusion

This study focuses on the legal status of collateral in the savings and loan processes managed by the Labda Pencingkreman Desa (LPD) in Bali. The LPD, originally known as the Village Credit

Institution, was established in 1984 as a response to rural financial challenges. One of its primary goals was to combat the exploitative "ijon" system, where farmers were often forced to sell their future crops at low prices to secure immediate funding, which hindered local economic growth. The LPD was designed to provide an alternative source of funding, allowing rural communities access to more equitable financial services and, consequently, fostering economic empowerment and stability within traditional villages.

Since its establishment, the LPD has played a transformative role in Bali's traditional villages. By offering accessible financial services, it has enabled villagers to access credit, save funds, and invest in local businesses and agricultural ventures. However, despite its success in supporting local economies, the LPD faces ongoing challenges. One primary issue involves the legal status and treatment of collateral within its credit agreements. Collateral, a fundamental component of credit transactions, serves to secure the lender against the risk of default by the borrower, ensuring that there is a legal mechanism to recover the loan if the borrower fails to meet their obligations.

Using a normative research approach, this study examines the regulatory framework governing LPDs, including relevant laws, court decisions, and established legal theories. This methodology allows for a comprehensive analysis of the formal legal foundation of LPD operations. In particular, the study delves into the provincial regulations that outline the roles, responsibilities, and limitations of LPDs, as well as the specific requirements for collateral in credit agreements. Legal theories on property rights, debt security, and community-based finance are also explored to provide context and insight into how LPDs align with broader legal principles and financial practices. "*Financial literacy programs tailored for rural communities help reduce misunderstandings in credit transactions and foster responsible borrowing habits.*" (Miller, D., & Katz, T. 2023)

The findings of this study indicate that, while regional regulations provide a formal legal basis for LPD operations, there are gaps in the implementation and enforcement of these rules. These gaps have significant implications for the legal certainty and reliability of collateral in credit agreements. For instance, although collateral is meant to provide security to creditors, certain ambiguities within the current regulatory framework create challenges in the enforcement of collateral rights, especially in cases of borrower default. These uncertainties can undermine the confidence of both customers and LPD administrators, potentially affecting the LPD's effectiveness and the willingness of customers to engage in credit agreements. "*Adapting legal frameworks to incorporate community financial institutions can enhance economic growth in rural areas, fostering stronger accountability and asset management*." (O'Leary, L., & Sun, H. 2021)

One specific area of concern is the clarity of ownership rights over collateralized assets. The current regulations do not sufficiently address the processes and legal implications involved when a borrower defaults on a loan. This lack of clarity can lead to disputes between LPDs and borrowers over the rightful claim to the collateral. Moreover, the decentralized nature of LPDs, which are managed by individual traditional villages, can result in inconsistent practices across different regions, leading to further complications in the enforcement of collateral rights.

To address these issues, the study underscores the need for stronger legal protections and clearer definitions of collateral rights within LPD credit agreements. These recommendations aim to promote greater legal certainty, ensuring that all parties involved—customers, LPD administrators, and village authorities—understand their rights and obligations in credit transactions. Enhanced legal clarity would provide a more secure foundation for credit agreements, reducing the likelihood of disputes and fostering trust between LPDs and their customers.

By reinforcing the legal standing of collateral, the study proposes that future improvements in LPD regulation and governance could significantly enhance the institution's role in local economic development. Clearer guidelines on collateral would not only protect LPDs from financial risks associated with non-performing loans but would also encourage more villagers to participate in the savings and loan programs. This, in turn, would enable the LPD to better fulfill its mission of supporting rural economies and improving the financial well-being of Bali's traditional village communities.

In conclusion, while the LPD has made substantial contributions to rural economic development, further regulatory reforms are needed to address the legal challenges surrounding collateral in credit agreements. By strengthening the legal protections and ensuring consistent application of collateral regulations, policymakers can help LPDs operate more effectively, ultimately contributing to sustainable economic growth at the village level. This study's recommendations provide a framework for policymakers, village authorities, and LPD administrators to consider as they work to enhance the governance and regulatory structure of LPDs, enabling them to serve as a reliable and secure financial resource for Bali's rural communities.

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