

DEVELOPING ECONOMY IN THE TRADITIONAL VILLAGES: Case of Villages in Bali Province, Indonesia

Gede Sedana

Agribusiness Department, Dwijendra University, Indonesia
E-mail: gededana@gmail.com

Abstract. In Indonesia, government has an effort to allow the village to establish new financial institution for supporting the rural development, namely rural credit institution, called *LPD*. This is addressed to overcome the limited access to information, technology, finance and transportation for the economic activities in the village. This study has objectives to understand roles of *LPD* in the economic activities development in rural area, and to describe the efforts to develop economic activities of *LPD*.

The *LPD* of Ambengan in the customary villages of Ambengan was purposively selected as research study. Data collected by using survey, observation and focus group discussion techniques. It was employed descriptive analysis method.

The results of study pointed out that the *LPD* has objectives to encourage and accelerate the rural economic growth, and improve the welfare of rural people. The *LPD* has economic activities, such as collect savings from the rural people, and effective allocation and distribution of working capital. Due to the dynamic changes regarding the financial aspect, the management board of *LPD* should have anticipative efforts to develop organization, management and financial performance. As the financial institution, *LPD* of Ambengan paid an attention on the internal atmosphere relating to the closed relationship among the staff, dynamic management, and communication in order to support the improvement of its performance.

Keywords: Rural credit, development, financial, economic activities

I. INTRODUCTION

Rural development is a part of economic development at the district, province and national level. This could be separated to the agricultural development due to the resources for agricultural developments are mostly available within the rural area (Gollin, *et al.*, 2002; Olsson, *et al.*, 2005; Otiman, 2008; Thurlow, *et al.* 2006). Therefore, the agricultural development still has important role in the economic development, particularly in the developing countries, including Indonesia (Omorogiuwa, *et al.*, 2014). The resources needed for the rural development are land, water, labour which are strongly related to the agricultural activities. Most of rural people is working on the farming activities, such as rice farming, horticulture farming, plantation, fishery, husbandry, and forest cultivation.

The rural people and farmers have relatively low productivity on their production works due to the limitation of access to technology, information, communication, working capital and others. The low productivity in the rural area might contribute to the low income of people and the quality of their welfare.

Presently, the government has developed the various programs for rural development and agricultural development in order to improve the rural people welfare. In the relation to rural and agricultural development, the main objectives that would be achieved are as follows: (i) to provide food; (ii) to create the employment; (iii) to supply the raw material for the industry; (iv) to increase income of people; (v) to sustain the environment; and (vi) to make better quality of life of rural people (Eteng, 2005; Madhusudhan, 2015). However, these objectives could not be optimally achieved at the village level since the poverty is still relatively big.

Access to financial support is still being a big problem in the rural areas (Surchev, 2010.). The people have difficulties to access to finance due to lack of collateral, complex mechanism, lack of information. These had made the rural people must borrow the money from the loan sharks (illegal money lender) with the high interest rate. They do not have power to bargain the interest rate because they need cash money for their needs. Even, they have to surrender their assets to the loan sharks when they could not return the loan in the definite time.

In order to cope with the problems cited above, the government has introduced the policy in the relation to financial institution establishment at the village level. The cooperative is very familiar for the local people as the financial institution. They could get loan from the cooperative established at the village level. The cooperatives have already provided several services aside from the loan to the local people, such as daily need of people (rice, sugar, etc.). The profit of cooperatives goes to the owners as a private management (Ortman and King, 2007; Kumar, *et al.* 2015). The cooperative of farmers also has gained share profits for the members in rural area (Mohammadi *et al.*, 2012; Sedana and Astawa. 2016).

Regarding to rural development program, government has an effort to allow the village to establish new financial institution. In Bali province, there are two kinds of villages, namely administrative village and customary village, locally called *pakraman* village. The administrative village is directly managed under government, but the customary village is managed by the customary people within the village. The government at the provincial level has issued the regulation about the Village Credit Institution under the Governor Decree Number 03/2017. Government has facilitated and supported the customary village to establish the finance institution, namely village credit institution or *Lembaga Perkreditasi Desa (LPD)*.

There are about 1,488 units of *LPD* established in Bali which located within 8 districts and 1 city. Different to the cooperatives, the *LPD*'s profit will back to the rural people in the village due it is owned by the customary village. Therefore, *LPD* might bring benefits for the rural people as the members of customary village, especially in providing the loan and increasing the capacities of rural people who make small enterprises. Besides, this also is expected to give services and support to the local people in developing their economic activities. This study has objectives to understand roles of *LPD* in the economic activities development in rural area, and to describe the efforts to develop economic activities of *LPD*.

II METHODS

One *LPD* was purposively selected as objects of this study, namely *LPD* of Ambengan in Buleleng regency, Bali Province. This is located in the Northern part of Bali Island. The considerations of this selection are (i) the activities of Ambengan *LPD* had run well since more than 15 years ago; and (ii) the government in the district (Buleleng regency) has still supported *LPD* through the traditional village where the *LPD* located. In this study, it was determined the key respondents who were interviewed during doing survey. They were the management boards of *LPD*, and the management board of traditional village, too. Techniques of data collection are survey, observation and documentation, and focus group discussion. Descriptive method was fully employed to analyse data collected.

III RESULTS AND DISCUSSION

3.1 Traditional village and roles of *LPD*

The traditional village in the selected site has *tri hita karana* philosophy (three causes for happiness) which is being guidance for the daily activities of villagers. This philosophy is also become the guidance of other villages and traditional organization in Bali. This has been born and grown in the everyday life and social interaction among the local people. Therefore, this could be a social capital which binds the local people to interact each other. The social capital owned by the customary village in the study site has important role for the local people to achieve the common goals (Jordan, et al, 2010).

The existence of customary law (internal rules) in the village constitutes the realization of *tri hita karana* which enforce the people to follow the rules or regulations. Social sanction would be fine to the person who breaks the rule, in which this is felt as heavy sanction. Its consequence is the people would be afraid of breaking the rules. In the customary village, the rules could be an instrument to manage, organize and control the activities of *LPD*.

The management board of traditional village has the role to organize and control the activities of local people including the operation of *LPD*. The chairman of traditional village plays great role in the management of *LPD*. Regarding the government regulation (at the provincial level), the traditional village in Bali has been facilitated to establish the rural credit institution, called *LPD*. As a part of customary village, management of the *LPD* is addressed to fulfil the needs of each villager. Those who are not being a member of *LPD* cannot get services although they are living in the village area of *LPD* located. The management board of traditional village take a control of *LPD*'s management under the customary laws of each village.

LPD is a financial institution in the traditional village with several special characteristics. These characteristics of *LPD* are as follows: as a business entity which is owned by the customary village, formed and managed by customary village. Another characteristic of *LPD* is carrying out the financial institutional functions of the customary village community. These functions are receiving/collecting funds from the villagers, and managing the financial institutions, and carrying out business function as an internal financial institution in the customary village.

Concerning the capital sources of *LPD*, it has been stated on the Chapter 5, particularly in article 9 of Bali Provincial Regulation Number 3 of 2017 about the Credit Institutions, the sources of capital of *LPD* of Ambengan are form the internal traditional village, loan from the government local bank, and grant from the government. At the first, *LPD* can be started with an initial capital of at least IDR 50,000,000.00 (fifty million rupiah). *LPD* capital consists of basic capital and supplementary capital, such as donation; reserve capital, and income gained from the year. In the end of 2016, the *LPD* of Ambengan had a total asset about IDR 30 billions.

The *LPD* capital is used to support the operations along the year, for the procurement of fixed assets and inventory as many as 50% of *LPD* capital. Besides, the capital of *LPD* is used for purposes other activities but must be based on the decision of assembly meeting. The profit of *LPD* was also used for the needs of the customary village of Ambengan.

Based on the survey in the site, *LPD* has several economic or business activities in line with the government's regulation. In order to strengthen and enrich working capital of *LPD*, the management board has been allowed to propose the loan from the bank, local government bank. All of the activities are firstly discussed and decided by the management boards of *LPD*. However, they have to conduct the meeting inviting the representative of people within the traditional village. The common economic activities run by the *LPD* were concerned with saving and deposit business, provision of credit for members of traditional village only, business partnership with other finance institutions, such as bank, and payment services for the local people regarding their transaction for electricity.

In term of economic development in the village, the *LPD* has objectives to encourage and accelerate the rural economic growth for the improvement of rural community's welfare through directed savings from the people, and effective allocation and distribution of working capital. The existence of *LPD* could eliminate the debt bondage and illegal pawn in rural areas. Moreover, *LPD* also has objectives to create equity and business opportunities for villagers and rural labor, and increase the purchasing power of the people, make better traffic of payments and money supply in the village.

The *LPD* of Ambengan has a role to decrease the economic burden of rural people, especially for the contribution of collective ritual activities and other social activities within the village. The *LPD* has responsibility for the cost of these activities. According to the business plan, the social and cultural activities in the village are responsible by the *LPD*. Every year, *LPD* allocates the budget for the collective activities for social and cultural activities, rehabilitation of temple and construction of physical infrastructure in the village. All of these expenditures are allowed and decided in the assembly meeting. It means that the *LPD* has great role in supporting the development in the customary village, and helping the rural people in making productive economic activities.

3.2 Developing the economic activities of *LPD*

In term of economic activities in the village, the position of customary village and existence of *LPD* are very strategic for the rural development. The reasons of this are (i) the customary village is traditional institutions that have taken

root and are respected by rural communities due to their custom; (ii) the customary village has regulations that have been agreed upon and complied with in writing or not; (iii) customary village is a traditional institution based on geography where social interaction that occurs on a daily basis results in the growth of a sense of unity and natural cooperation as a form of mutual cooperation that is closely intertwined.

These conditions have significant contribution to the strong organizational and financial management of *LPD*. The management board of *LPD* and board of customary village have harmonious relationship in running the economic or business activities in order to support the villagers. Due to the positive benefits gained by the rural people, the *LPD* should be developed in order to provide better services for them and make more productive economic activities of the people and *LPD* itself.

The management board of *LPD* firstly conduct a meeting with management board the customary village to discuss about the business plan that would be the basic economic activities. Furthermore, the draft of business plan was discussed again with the other representative of customary village's members. In order to improve the business plan, the chairman of *LPD* invited the government staff to attend the meeting. *LPD* needed suggestion or inputs for having an actual business plan which was based on the availability of resources. The final business plan was socialized the members of customary village in order that they know and understand what the plan of *LPD*. The principle of openness is very important to the management board of *LPD*.

One of the economic activities covered in the business plan is loan provision to the members. The *LPD* and management board of customary village made the terms of conditions relating to the maximum loan, mechanism of loan (standard operational procedures), rate of interest and other conditions. The *LPD* used this term of conditions to manage the service of micro credit to the members of customary village. The loan provided by the *LPD* is one of the important benefits for the rural people which were used for the productive or social activities. This is also being a big income source of the *LPD*.

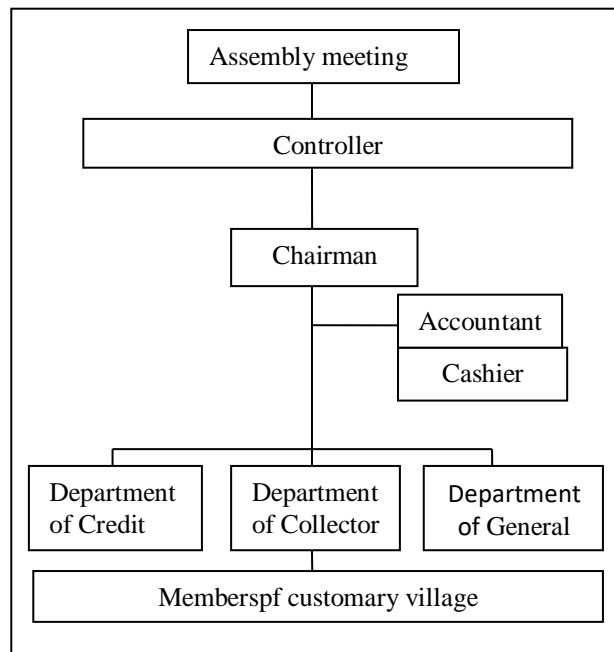
Based on the interview with key respondents, they still need government's roles to be a facilitator and problem solvers for the *LPD* development. Government is expected to provide training to management board of *LPD* regarding some aspects, such as organization and management, accountancy, business development and leadership. Besides, they asked government to make policies in terms of micro and macro economy to support the economic activities of *LPD*.

The trainings could be in the forms of workshop and comparison study in order to strengthen the capacities of management board. The higher competition on the financial aspect with the other institutions was forced the *LPD* to improve the services for the people. As a mission of *LPD*, the economic support to local people is a number one. The *LPD* had had several activities based on the business plan and its vision. Among other things are: (i) the improvement of performances of *LPD*; (ii) the improvement of innovation and creativity; (iii) the efficient operation and production; (iv) the improvement of competitiveness; (v) the empowerment of rural people for having productive business; (vi) the higher

support to develop small business in the village; and (vii) the better support to non-economic activities, such as social and cultural aspects.

LPD of Ambengan is chaired by the chairman as an operational manager. He is assisted by the cashier and accountant (see Figure 1).

Figure 1
Structure of *LPD*



The management board of *LPD* should have anticipative efforts to develop organization, management and financial performance. As the financial institution, *LPD* of Ambengan paid an attention on the internal atmosphere relating to the closed relationship among the staff, dynamic management, and communication in order to support the improvement of its performance. In term of external aspects, the management board of *LPD* of Ambengan always maintain and develop business partnership with the other financial institutions and other relevant organization. Therefore, the government could facilitate and support the partnership among the *LPD* and other institutions to have much more profit and provide benefits to the rural people.

Aside from this, the management board of *LPD* also have an education program to the rural people. This concerned the proper loan management for improving the small business run by the rural people. *LPD* would get advantage if the rural people could have productive small business to gain more profit. This might bring about they would return the loan in line with the date defined based on the contract. Relating to this, government should conduct the training addressed to the management board of *LPD* to have improved capability in educating the rural people.

The management board of *LPD* should be improved their skill to master the information technology due to the fast changes of economic in the country at the macro as well as micro levels. They should understand and be able to analyze the changes which might influence the financial management of *LPD*. The facilities for information technology have to be

available in the LPD in order that the management board could follow and respond the changes.

The Customary Village of Ambengan should also conduct the monitoring and evaluation to the operation of LPD. One of the monitoring that is always done by the chairman of customary village is having periodical meeting with the LPD. Through this meeting, the LPD reported the economic activities and other activities to the customary village.

Strengthening their capacities might be done through the training, workshop and comparison study to the other successful LPD. The training activity should be more practically done in order that the management boards could easier understand and applied the subject matters of training. Participatory training should be possible conducted and based on the needs of organization or LPD. This training is addressed to increase motivation of management boards, make better efficiency in the management process, improve the capacity to apply the new methods and the other technologies, and raise creativity and innovation in making new strategies and programs that would make better results and performances of organization.

The comparison study is expected to give more experiences and additional knowledge on how to run the management, administration including the leadership which have been done. By this activity, among the management board should share their experiences, problems, challenges and solutions they have. In addition, they could have further contact each other after they return to the village. It means that they have already established the new net working among the management boards of LPD. This could also be a media for them to discuss and consult about the management of LPD.

Therefore, LPD should be early prepared the anticipative efforts together with the management board of customary village as the owner of LPD. The improved capacities of management board of LPD could increase and develop the financial functions for rural people. Hence, this could support the acceleration of economic growth in the village.

IV CONCLUSION

Government has introduced and developed the various programs for rural development and agricultural development to improve the welfare of rural people. One of those programs is LPD that has objectives to encourage and accelerate the rural economic growth for supporting the agricultural and rural development. The LPD has economic activities, such as collect savings from the rural people, and effective allocation and distribution of working capital. Due to the dynamic changes regarding the financial aspect, the management board of LPD should have anticipative efforts to develop organization, management and financial performance. LPD of Ambengan as the financial institution has paid an attention on the internal atmosphere concerning the closed relationship among the staff, dynamic management, and communication in order to support the improvement of its performance.

REFERENCES

- Diao, X., Hazell, P., & Thurlow, J. 2006. The role of agriculture in African Development. *World Development*, 38(10), 1375-1383.
- Eteng, F.O. 2005. Rural development in Nigera: Problems and Remedies. *Shopia: An African Journal of Philosophy*, Vol. 8, No.1: 65-71.
- Kumar, V., K. G. Wankhede, H. C. Gen. 2015. Role of Cooperatives in Improving Livelihood of Farmers on Sustainable Basis. *American Journal of Educational Research*. Vol. 3, No. 10:1258-1266.
- Madhusudhan, L. 2015. Agriculture Role on Indian Economy. . 2015. *Business Economics Journal*, Vol.6, Issue 4.
- Mohammadi, H., M. Sabouhi, S., B.A. Siasar, and B. Mir. 2012. Study on the Role of Agricultural Production Cooperative in Improving Farmers' Technical Knowledge: A case Study on ugar Beet Growers in Fars Province, Iran. *Journal of Sugar Beet*, 27(2): 59-67.
- Olsson, O. and D.A. Hibbs, 2005. Biogeography and Long-Run Economic Development. *European Economic Review*, 49 (4), 909-938.
- Omorogiuwa, O., J. Zivkovic., and F. Ademoh. 2014. The Role of Agriculture in the Economic Development of Nigeria. *European Scientific Journal*, February 2014 edition vol.10, No.4:1857 – 7881
- Ortmann, G.F. and King, R.P. 2007. Agricultural Cooperatives Can They Facilitate Access of Small-Scale Farmers in South Africa to Input and Product Markets? *Agrekon*, Vol 46, No 2.
- Otiman, P.I. 2008. Rural Development and Agriculture: Opportunities to Attenuate the Economic and Financial Crisis and to Resume Economic Growth. *Agricultural Economics and Rural Development*, New Series, Year V, nos. 3–4, p. 97–128.
- Roth, D. and G. Sedana. 2015. Reframing Tri Hita karana: From 'Balinese Culture to Politics'. *The Asia Pasific Journal of Anthropology*. Vol.16, No.2, 157-175
- Sedana, G. and N. Dasi Astawa. 2016. Panca Datu Partnership in Support of Inclusive Business for Coffee Development: The Case of Ngada District, Province of Nusa Tenggara Timur, Indonesia. *Asian Journal of Agriculture and Development*, 2016, vol. 13, issue 2, 75-88.
- Surchev, P. 2010. Rural Areas-Problems And Opportunities For Development. *Trakia Journal of Sciences*, Vol. 8, Suppl. 3, pp 234-239.
- Timmer, P. 2002. "Agriculture and Economic Development". In B. Gardner and G. Rausser eds., *Handbook of Agricultural Economics*, pp. 1487-1546.
- Thurlow, J., & Wobst, P. (2006). Not all growth is equally good for the poor: The case of Zambia. *Journal of African Economies*, 15(4), 603–625.