

How to Create A Sustainable Village Credit Institution (Phenomenological Research)

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Abstract

The existence of the Village Credit Institution (VCI) in the traditional village environment is always expected to have a positive effect on the community. However, in practice various obstacles have colored the VCI's journey, especially with the pandemic conditions that hit Bali greatly affecting the development of the VCI. Problems experienced such as the non-operation of the VCI inadequate financial performance, difficulties in dealing with non-performing loans, negligent persons and violated their authority and various other problems. This study aims to design how to create VCI sustainability in Bali. Primary and secondary data were obtained by means of in-depth interviews. This research is a qualitative research, interpretive paradigm using a phenomenological approach. The population of this research are interested parties in the VCI where to ensure the depth of the information obtained, 4 research informants will be selected consisting of VCI supervisors, VCI managers, VCI members and legal practitioners.

Keywords: sustainability, village credit institutions, interpretive, phenomenology

Introduction

The role of the VCI in advancing in its work environment is in doubt. VCI as a financial institution located in a certain traditional village environment is always expected to have a positive effect on the community, especially in the economic sector (Adnyani, 2017; Sriarti, 2020). The establishment of the VCI began with the aim of improving the living standards of the community in the village and eradicating bondage, illegal pawning, increasing people's purchasing power and facilitating payment and exchange traffic in the village (Wirasmini Sidemen, 2013).

In practice, various obstacles have colored the VCI's journey, including especially with the pandemic conditions that hit Bali which of course greatly affected the development of the VCI. These problems include VCIs that do not operate, inadequate financial performance, difficulties in dealing with non-performing loans, individuals who are negligent and violate their authority so that they are caught in legal cases, administrators and managers who do not comply with existing regulations, supervision of daily activities. Some traditional villages that do not have *perarem* (regulations) on VCI so that the solution to VCI problems has not been contained in *perarem* (BPKP Bali, 2022). Other phenomena related to this can also be observed in several news media regarding the cases that befell the VCI management, including the Serangan VCI and Sangeh VCI (Bali Post, n.d.; Koagouw, 2022). Several other VCIs spread across Bali also experienced similar problems which were exposed by the mass media.

The latest condition of VCIs in Bali which was conveyed by the expert staff of LPLPD Bali who was delivered in a workshop held by BPKP representatives of Bali that in the period of June 2022 out of 1437 VCIs formed that operated only 1,336 units or operating around 93.0%, 7% were not operates with a workforce of 8,285 people. The largest percentage is 42.1% of VCI wealth in the medium category, namely Rp. 1 Billion until smaller than Rp.10 Billion as many as 562 VCI units while only 3.6% or as many as 48 VCI units which are in the very large category. The total

wealth of the VCI is Rp.23,560.5 billion, which shows that the VCI has a major role in contributing to the welfare of the community so that the VCI with various kinds of problems must receive serious handling from all parties. Based on the above background, the formulation of the research problem is "How to create a sustainable Village Credit Institution?".

A company requires a governance in carrying out its operational activities. Corporate governance is a set of mechanisms, processes, and relationships by which the company will be controlled and operated (Ghozali, 2020). Uncertainty situations require good corporate governance, which is a system consisting of functions related to carrying out the company's operations as an economic and social entity through the application of generally accepted principles. GCG cannot be separated from agency theory which was popularized by Jensen and Meckling in analyzing the relationship that occurs between owners and agents (Hamdani, 2016). In this study of course LPD as an organization in which there are interested parties who will act as agents and principals.

VCI also has agency problems where due to the separation between the management and owners of the VCI, namely members of the local indigenous community. The remaining operating results cause the VCI management to take action to increase its business volume to obtain financial compensation which can have serious consequences if it is not accompanied by the ability to detect and manage risks properly. Furthermore, the information is not symmetrical due to the ownership of a lot of information by the management because the management has a lot of information and assumes that other people do not know and do not understand what they are doing (adverse selection). This will result in moral hazard and behavior that is concerned with individual interests and at the expense of other people and institutions (Suartana, 2009).

The General Guidelines for Good Corporate Governance in Indonesia issued by the National Committee on Governance Policy (KNKG) in 2006 regulates good corporate governance in Indonesia. In order to achieve the goal of realizing good corporate governance, it will require the cooperation of various parties involved, including policy makers, business actors and the community. In accordance with this, the principles of corporate governance are divided into a) transparency, b) accountability c) responsibility, d) independence and e) fairness and equality .VCI is one of the microfinance institutions in Bali that has its own uniqueness compared to other microfinance institutions (Saputra et al., 2019). As an institution in which various interested parties are gathered, a process is needed. Governance within the VCI relating to the procedures used by stakeholder representatives in the organization, providing oversight and control that is governed by management. Governance activities are a form of accountability to stakeholders (Suartana, 2009). The parties related to governance practices in the VCI involve the village head, internal supervisor, the head of the VCI, the administration section and also the cashier. Several previous studies that examined VCI governance include Adnyani, 2017; Augustini, 2019; Anggreni & Suartini, 2018; Hadiati et al., 2021; Sari & Mahuni, 2020; Sriarti, 2020 and in this study, when compared with previous research, we examine in more depth through in-depth interviews with expert informants from the economic, legal and culture.

Research methods

This research was conducted at Cengkilung VCI, one of the VCIs in Denpasar City, which has implemented good governance. Primary and secondary data were obtained by means of in-depth interviews. This research is a qualitative research, interpretive paradigm using a phenomenological approach. Interviews will be conducted with research informants, namely I Gusti Ngurah Putu

Sumardika (Chairman of VCI), I Wayan Ari Wardana (Supervisory Agency), I Wayan Suweca (VCI member) and a prosecutor, namely I Made Agus Mahendra Iswara, SH, MH. Researchers explore information about governance through formal and informal questions and answers combined with observations of phenomena in the field. According to Sanders (1982) the first thing the researcher did was to do an intentional analysis by combining the perceived object (*noema*) and subjective understanding (*noesis*) on the object of research through notes and reports, individuals who work in organizations, organizational activities, and perceptions members regarding VCI governance.

Discussion

This study seeks to reveal how to create a sustainable VCI in terms of its governance which stems from the various problems it experiences. Considering the problems that have reached the realm of law, in this study what distinguishes it from other research is that interviews with sources who are competent in legal matters other than VCI managers, members and supervisors can later be used as a foothold in solving some of the problems encountered.

Transparency

Transparency is the ease of providing material, relevant information in a way that is easily accessible and understood by stakeholders. In this regard, the VCI has implemented it, which can be seen from the excerpts of interviews with the VCI chairman.

"We have made financial reports and can be given to our members and supervisors because it is our obligation as managers to provide them."

This is in accordance with the research of Handayani et al.(2020); Sastra & Erawati (2017) which states that transparency has a positive effect on financial performance where good financial performance is one of the predictors that ensures the sustainability of the VCI.

Accountability

Accountability reflects that organizational arrangements are carried out correctly, measurably and take into account the interests of the organization that take into account the interests of village community members and other interested parties. The results of the interview show that the VCI Chair understands the vision, mission and objectives of the establishment of the VCI and is aware of his duties and responsibilities both in operational activities by always controlling employees. This can be seen from the excerpts of interviews that researchers did.

"Being the head of an LPD must be disciplined in controlling operational activities, especially in terms of how to document evidence of existing transactions carried out by employees according to existing rules so that they are not misused, because all of the responsibility are on the chairman of the VCI".

The same thing was conveyed by the VCI supervisor who is an accounting graduate who stated that inspections were often carried out without prior notification in order to provide a disciplinary effect in carrying out the duties of VCI managers. However, it is undeniable that at the beginning of serving as the VCI supervisory, there were a few obstacles when providing guidance to more senior employees whose education did not have an accounting background. After being approached and assisted by the VCI supervisor, the problem was finally resolved and the

practices in VCI financial administration were in accordance with applicable standards. This statement was also revealed from an excerpt from an interview conducted with one of the VCI members who also happened to be a former local customary village chief who stated that previously VCI had experienced difficulties in preparing financial reports due to a lack of understanding of accounting from VCI managers and supervisors so that further recruitment of managers and supervisors was carried out. whose background is in management and accounting science so that VCI operations and supervision can be carried out better which also affects VCI performance.

Responsibility

Responsibility is the implementation of responsibility by VCI managers to members, the community and the environment and must comply with applicable laws and regulations. In addition, responsibility is also reflected in the VCI's concern for the sustainability of community life and the environment as well as decision making in determining the direction and policies of the VCI. This was conveyed by the Head of the VCI that the VCI "*medana punia*" at Kahyangan Tiga Temple was Rp. 300,000 each *piodalan* (ceremonial day). In addition, if there are members who experience grief and need funds, members can borrow a maximum of Rp. 30 million for 36 months without collateral with an interest rate of 1.5% decreased. Of course, all VCI activities are carried out according to applicable regulations. With regard to changes in regulations that will be carried out, the VCI manager will submit first in the "*paruman adat*" before making decisions such as the proposal from members to lower the VCI interest rate as a result of the pandemic and even more so due to VCI competition with low interest KUR offers by the bank and this is also one way how in the future VCI will continue to exist in helping the welfare of indigenous peoples and their environment.

Independence

Independence is the management of financial statements carried out independently so that there is no domination and intervention from any party as well as in overcoming problems that exist at a certain level carried out independently up to 10 times the installments are in arrears, it will be discussed in the "*paruman adat*". Independence is also reflected in the development of the ability of the VCI Chair and staff with training from the BPD (Regional Development Bank) which is conducted once a year.

Fairness and Equality

Fairness and equality include the opportunity for VCI members to argue, management fairness to members as well as equal opportunities in recruiting employees from among indigenous peoples. Especially in the recruitment of employees considering the problems that have been experienced and have been previously conveyed specifically for the head of the VCI, it is prioritized for members of the indigenous village community with management or accounting backgrounds to be competent in carrying out their duties. Given the considerable challenges faced by the VCI in the future, it was also revealed the hope expressed by VCI members that an VCI chair must have innovation in carrying out VCI activities. The following are excerpts of interviews conducted with VCI members.

"Currently, the challenges of VCI are quite large and we as members have high hopes for our VCI so that someone who leads the VCI has at least competence in economics and an entrepreneurial spirit in managing the VCI without compromising our local culture, upholding the values of Tri Hita Karana, Tri Kaya Parisudha, Panca Sradha in every action he does and Catur Purusa Artha".

This excerpt indicates that the equality carried out in the recruitment of VCI managers and supervisors requires another selection process so as to find suitable and competent individuals so as to minimize fraud that occurs.

In this study, the researcher also conducted interviews with informants from legal practitioners with the profession as prosecutors where the following interview excerpts were conveyed. The existence of corruption cases that have occurred over the past 2 years in Bali is quite high, almost every district or city in Bali has legal cases related to the VCI. Especially in Denpasar, as of 2022, only 1 case has gone up to prosecution, but there are quite a lot of problematic related to VCI management. There are several factors that hinder the effectiveness of VCI management, namely when referring to the theory of the legal system, namely a) legal substance, namely legal problems occur because of the rules and systems that provide gap for deviation. It can be seen from the regional regulations and governor regulations which provide a fairly high discretionary gap to VCI officers, b) the legal structure is the existence of legal problems from VCI officers. Furthermore, the legal culture, the apathy of the society is high, the people are not critical of their environment and the culture of corruption which is considered normal. The dominant factor of the current VCI problem is the legal structure factor of the existing rules as well as the VCI *prajuru* factor itself. So that external and internal factors contribute to each other as the cause of deviations that occur in the VCI.

In the interview, it was also revealed point of view the solution to VCI problems should be, VCI managers work according to *awig awig* and/or *perarem*. With regard to existing doubts, immediately coordinate with LPLPD or ask for legal opinion from the legal head of the city or district government or the local district attorney's office. Meanwhile, customary parties to VCIs that do not yet have *awig-awig* and *perarem* related to VCI financial management immediately coordinate with related parties in this matter. Meanwhile, the regional government will immediately prepare a new regional regulation based on the results of an assessment of weaknesses in any regulations governing VCIs and immediately disseminate technical information on making *awig-awig* and *perarem* related to the technical management of VCI finances. The products that need to be made are related to a) strengthening of VCI as legal subjects of customary villages and entering the realm of adat. b.)related to the technical standardization of credit application and c) regulating the interest rate of the VCI itself so as to minimize deviations and losses that occur in the VCI. The hope in the future is of course the VCI created by Prof. I.B Mantra is in accordance with the objectives for the welfare of indigenous peoples in their environment.

Conclusion

How to create sustainability of the VCI cannot be separated from good governance as seen from transparency, accountability, responsibility, independence and fairness and equality applied in the management of the VCI. Given the interrelationships of various fields, including economics, law and culture, that support governance in VCI, the various limitations and problems that exist

must be addressed from various aspects that affect them so as to ensure the sustainability of the VCI in the community. The limitation of this research is digging up information from one object of research in the hope of seeing the positive side that has been implemented in VCI that exists and is healthy in its operations. Further research can certainly be developed again with in-depth interviews with more informants with various conditions so that more phenomena are found in the field so that they can provide solutions to problems in VCI.

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