

Research Article

The Effectiveness of Kasepekang Customary Sanctions in Maintaining the Stability of the Credit System of Village Credit Institutions (LPD) in Karangasem Regency

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Abstract

This study investigates the role of traditional sanctions in the management of credit issues within the Lembaga Perkreditan Desa (LPD) in Karangasem, Bali. Using a qualitative approach, this research relies on library research and literature review to explore how adat law, specifically the "Kasepekang" sanction, is applied to borrowers who default on their loans. The research examines the effectiveness of this traditional sanction in maintaining the stability of the LPD's financial operations and ensuring compliance with the credit agreements. It also investigates the relationship between local cultural norms and formal financial systems, particularly in the context of credit management in Bali. The study finds that while the application of "Kasepekang" can enforce compliance and prevent further defaults, it also raises concerns regarding its fairness and potential violation of human rights. The research further highlights the challenges faced by LPDs in balancing traditional practices with modern legal frameworks, suggesting the need for more comprehensive regulations to guide the implementation of such sanctions in financial institutions. This study contributes to a deeper understanding of how cultural and legal elements intersect in the operation of community-based financial systems, and offers insights into improving the governance and sustainability of LPDs.

Keywords: Village Credit Institutions, Kasepekang, traditional sanctions, credit default

INTRODUCTION

Village Credit Institution (LPD) is one of the financial institutions that has an important role in the economy of rural communities in Bali. As a people's financial institution, LPD is one of the characteristics of customary law communities in Bali (Suwitra & Rideng, 2025; Suryani, 2019). LPD functions as a facilitator in providing financial services to the community by collecting funds from the community and redistributing them in the form of loans or credits (Windia & Sudantra, 2025; Martono, 2017). The LPD system in Bali is unique because it is based on the principles of mutual cooperation and kinship, which can also be equated with the principles that exist in cooperatives (Suwitra, 2025).

Although LPD carries out banking activities, its role cannot be equated with other financial institutions such as People's Credit Banks (BPR) or Cooperatives. This is related to the legal basis used by LPD, which is regulated in Law Number 1 of 2013 concerning Microfinance Institutions (Bali Provincial Regulation, 2017; Suryani, 2019). LPD in Bali is owned by traditional villages, which have autonomy in regulating economic activities, including credit management (Suryani, 2019; Windia & Sudantra, 2025).

The customary law that applies in Bali, known as Balinese Customary Law, consists of norms that govern people's lives in the relationship between fellow humans, nature, and God (Windia & Sudantra, 2025; Suhardi, 2018). LPD exists as a microfinance institution that is expected to strengthen the village economy and improve the welfare of village communities by managing financial resources based on customary values and local culture (Pratiwi, 2024; Suhardi, 2018).

One of the main challenges faced by LPD is the risk of default or bad credit. The inability of customers to meet loan repayment obligations can be detrimental to LPD's financial stability (Rideng, 2025; Simanjuntak, 2020). Some of the factors that cause bad loans include lack of human resource support in management, and lack of prudence in providing credit (Hasibuan, 2014; Rideng, 2025). To minimize these risks, LPD needs to implement an effective supervision system, including the application of sanctions that can suppress the occurrence of defaults (Bohannan, 1995).

Kesepekang customary sanctions are a form of punishment imposed on community members who violate customary rules, including LPD customers who fail to pay credit (Bohannan, 1995; Ali, 2013). This sanction is in the form of exclusion from indigenous peoples, where individuals who are sanctioned cannot participate in social activities or receive assistance from the community (Pratiwi, 2024; Mertokusumo, 2009). Although this sanction has been applied for generations, there are pros and cons related to its effectiveness in maintaining customer compliance with their credit obligations (Suwitra, 2025).

Regulations on LPD in Bali are regulated in Bali Provincial Regulation Number 8 of 2002 which was later amended by Bali Provincial Regulation Number 3 of 2017. This regulation regulates the operation of LPDs, the rights and obligations of customers, and credit granting procedures (Bali Regional Regulation, 2017; Bali Regional Regulations, 1988). Although there is a clear legal basis, there are still inconsistencies in the application of customary sanctions against violations of credit payment obligations. Some customary villages, such as the Paselatan Customary

Village, have revoked the previously implemented Kesepekang sanctions because they are considered contrary to existing regulations (Bali Regional Regulation No. 4 of 2019) (Bali Regional Regulation, 2019).

In addition, another challenge that arises is a change in people's perspective on Kesepekang customary sanctions in line with the development of the times and globalization (Suwitra, 2025). Social conflicts that arise, such as those that occurred in the Straits Customary Village, show that there is a discrepancy between customary law and formal law that applies in Indonesia (Pratiwi, 2024; Suryani, 2019). This encourages the importance of studying the effectiveness of customary sanctions in ensuring compliance with credit obligations and financial stability of LPDs in Bali.

LITERATURE REVIEW

The Concept of Kesepekang Customary Sanctions

Sanctions are a form of punishment or actions given due to violations of norms, rules, or laws that apply in society. In legal theory, sanctions can be divided into several types, such as criminal, civil, administrative, and social sanctions (Bohannan, 1995; Mertokusumo, 2009). Sanctions have the purpose of upholding order, providing a deterrent effect, and ensuring that individuals or groups comply with existing rules. In general, sanctions are divided into two forms: corporal punishment and fines (Ali, 2013; Windia & Sudantra, 2025). In addition, in Balinese customary law, customary sanctions serve to restore the social and spiritual balance that has been disturbed due to violations of customary rules, and these sanctions are known as "Pamidanda" or "Danda" (Suwitra & Rideng, 2025; Windia & Sudantra, 2025).

Customary sanctions applied in Balinese society, including the Kesepekang sanction, focus on the exclusion or isolation of individuals from indigenous peoples (Pudja, 2025). People who are subject to these sanctions are considered no longer part of the community, thus losing their rights as members of indigenous peoples, including the right to participate in traditional ceremonies and receive assistance from the community (Pudja, 2025; Suwitra & Rideng, 2025). According to Windia (2025), this sanction aims to educate and improve community behavior, as well as maintain harmony in the social life of indigenous village communities. Kesepekang sanctions, as a form of sanction for the soul of danda, are one way to maintain peace and balance in the community based on Balinese Hindu cultural and religious values (Suwitra, 2025).

The Concept of Credit in the LPD Financial System

Credit, which comes from the Latin word "credere" which means trust, is a form of loan-borrowing agreement that must be repaid within a certain period of time, usually with interest in return (Hasibuan, 2014). Credit is regulated in various laws and regulations, such as in Law Number 7 of 1992 concerning Banking, which regulates credit as the provision of money or bills that can be equated with it, based on agreement between the lender and the recipient of the loan (Banking Law, 1992; Hasibuan, 2014). The granting of credit, although closely related to civil relations, still involves several important elements such as agreements between the lender and the

creditor, as well as the existence of guarantees or collateral that can be owned by the lender as a form of protection against the risk of default (Ali, 2013).

In granting credit, the 5C principle (Character, Capacity, Capital, Condition of Economy, Collateral) is a guideline used to assess the eligibility of prospective debtors (Suwitra & Rideng, 2025). In addition, in LPD, the credit granting process not only looks at financial feasibility, but also pays attention to social and cultural aspects, in accordance with the principles of mutual cooperation that apply in Balinese society (Rideng, 2025). This makes LPD different from other financial institutions, because in addition to functioning to improve economic welfare, LPD also plays a role in strengthening the socio-cultural values that exist in the indigenous peoples of Bali (Pratiwi, 2024).

Concept of Village Credit Institution (LPD)

Village Credit Institution (LPD) is a microfinance institution in Bali and operates in a customary village environment. LPD has different characteristics from other financial institutions because its establishment is based on customary law and functions to improve the economic welfare of village communities (Bali Regional Regulation, 2017). In Article 2 of the Bali Provincial Regional Regulation Number 3 of 2017, it is stated that LPD is a village-owned business entity that involves indigenous peoples in its management and operational processes (Suwitra, 2025). The main objective of LPD is to encourage the economic development of the village community through effective distribution of working capital and to collect funds from the village community in the form of savings and deposits (Bali Regional Regulation, 1988; Bali Regional Regulation, 2017).

LPD has significant differences from other financial institutions such as BPRs and cooperatives. LPD prioritizes social and cultural principles in its operations, with a non-profit orientation that focuses on the development of the welfare of village communities (Bali Regional Regulation, 1988). In addition, LPD operates based on the applicable awig-awig or village customary regulations, which determine how fund management and credit are carried out in accordance with existing customary rules (Bali Regional Regulation, 2017; Suryani, 2019). In the organizational structure, LPD is supervised by the traditional village paruman and LPD administrators elected by the village krama to ensure that the institution's activities remain in accordance with the values held by indigenous peoples (Suwitra, 2025).

Table 1. The Difference Between LPD and Other Financial Institutions

Characteristic	LPD		BPR	Cooperation
Foundation	Customary Law/Awig-Awig		Law No. 10 of 1998 concerning Banking	Law No. 25 of 1992 concerning Cooperatives
Formation Initiative	Traditional People	Village	Individuals or groups	Individuals or groups
How to Acquire Capital	Voluntary from villagers	donations from traditional	Shareholders and other legitimate sectors	Own capital and cooperative loans
Organizational Tools	Paruman traditional	of villages,	GMS, Commissioners, Board of Directors	Meetings of members,

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	traditional bendesa, chairman of LPD		administrators, supervisors
Scope of Operational Area	Customary village	Throughout Indonesia	Throughout Indonesia
Business Orientation	Socio-cultural, non-profit	Profit-oriented	Profit-oriented
Profit Sharing	60% for village welfare, 40% for capital	By stock	Residual business results (SHU) for members

The chart above illustrates the main differences between LPDs and other financial institutions such as BPRs and cooperatives, emphasizing fundamental differences in socio-cultural aspects and business orientation. As an institution that focuses on the economic empowerment of indigenous village communities, LPD plays an important role in maintaining social and economic stability through an approach based on the principles of mutual cooperation and customary rules.

RESEARCH METHODS

This research uses an empirical legal research approach, which aims to gain an in-depth understanding of the legal practices that apply in the community, especially related to the application of customary sanctions in cases of bad loans at Village Credit Institutions (LPD). This approach compares existing norms with their implementation in the field, which is called *dasollen* and *dassein*. In this case, the law is seen as a social reality that occurs in society, which is the core of this research to understand the application of customary sanctions in overcoming bad loans. This research is descriptive, examining the social realities related to the implementation of customary sanctions and their effectiveness in maintaining the financial stability of LPD. The problems that arise, such as those that occur in several customary villages in Bali, show that there is a gap between customary norms and the reality that occurs on the ground (Suwitra, 2025).

This research method uses several legal approaches. First, the statute approach that focuses on the analysis of the regulations that govern credit institutions and Balinese customary law. Second, a legal concept approach that examines problems based on relevant legal theories and principles, as well as the views of legal experts who contribute to the understanding of customary law concepts in the Indonesian legal system. This approach also aims to deepen knowledge of legal concepts and principles applicable in this matter (Soerjono Soekanto, 1982). Third, the case approach, which allows researchers to analyze legal phenomena that occur in the field through real case studies related to bad credit problems and the application of customary sanctions in LPD. This approach provides a deeper insight into the social and cultural life that influences the implementation of customary sanctions in Balinese society. Fourth, the customary law approach, which studies the relationship between customary law and the practice of social life in the Balinese customary law society. This approach provides further understanding of the influence of customary law on people's lives and the application of customary sanctions in addressing bad loans (Windia & Sudantra, 2025).

This study uses two types of data sources, namely primary data and secondary data. Primary data was obtained from direct observation and interviews with informants who were directly involved in bad credit cases in LPD Duda Village and Sengkidu Village, Karangasem Regency. This data provides an in-depth picture of the reality of the implementation of kasepekang customary sanctions. Meanwhile, secondary data includes primary legal materials, such as relevant laws and regulations, as well as literature and scientific writings related to the problem being studied. The primary legal materials used in this study include the 1945 Constitution of the Republic of Indonesia, the Civil Code (KUHPPerdata), Law Number 1 of 2013 concerning Microfinance Institutions, and regional regulations governing LPD in Bali (Bali Regional Regulation No. 3 of 2017, 2017).

The data collection techniques used in this study are document studies and interviews. The document study was carried out by collecting and analyzing relevant regulations, as well as literature that discusses the application of customary sanctions in cases of bad loans in LPD. Interviews were conducted with informants who were directly involved in the process of implementing customary sanctions in LPD Duda Village and Sengkidu Village, in order to find out information about people's perceptions and experiences of the effectiveness of customary sanctions in dealing with bad credit problems.

This research was conducted in Karangasem Regency, Bali, with a focus on two locations, namely LPD Duda Village, Selat District, and LPD Sengkidu Village, Manggis District. Karangasem Regency has many LPDs, and these two locations were chosen because of the relevance of the issue being researched, namely the application of kasepekang customary sanctions in overcoming bad loans in LPDs. The number of LPDs in Karangasem Regency spread across various sub-districts shows the diversity of challenges faced in credit management and financial stability of LPDs (Bali Regional Regulation, 2017).

To analyze the data, this study uses qualitative analysis with a legal interpretation approach. This interpretation process is carried out to compile and interpret the data obtained from interviews and field notes in a systematic and in-depth manner. Content analysis is also used to measure and analyze the concepts and words found in texts, interviews, and documents related to kasepekang customary sanctions. Thus, this analysis is expected to provide a clear picture of the effectiveness of customary sanctions in credit management in LPD, as well as its implications for the financial stability of the institution.

RESULTS AND DISCUSSION

Legal Basis for the Establishment of Village Credit Institutions

Village Credit Institutions (LPD) are financial institutions that are very important in supporting the economy of indigenous village communities in Bali. Since it was first inaugurated in 1984, the existence of LPD has been proven to have a significant positive impact on the village economy. In this context, LPD is tasked with collecting and distributing funds in the form of credit to rural communities, most of whom have limited access to formal financial institutions. The existence of LPD, which is based on customary law and applicable laws and regulations, provides access

to indigenous peoples to get much-needed financial services. The sustainability of LPD is greatly influenced by the principles of prudence and prudent management in distributing credit, one of which is with the procedures that have been established in the credit granting process.

The credit disbursement process at LPD in general is not much different from formal financial institutions, although LPD has unique characteristics, namely only serving indigenous village communities and operating in compliance with customary rules. In this case, the procedure for granting credit begins with the application of prospective debtors who must meet various requirements, such as photocopies of personal identity, guarantee documents, and filling out credit application letters. After that, a credit feasibility check is carried out, which includes a survey of the prospective debtor's business location to assess their business potential. This process refers to the 5C principle which includes character, capacity, capital, economic conditions, and collateral or collateral (Bali Provincial Regulation No. 3, 2017). With this procedure, LPD can better mitigate the risk of bad loans.

However, even though the credit granting process has been running well, in its implementation it is not uncommon to find debtors who do not fulfill their obligations or commit defaults, which ultimately causes bad credit problems. According to Article 1313 of the Civil Code, a credit agreement is a binding agreement between two parties, one of which is a creditor and the other is a debtor. In this case, if the debtor breaches the agreement, the creditor has the right to sue the debtor legally. In addition, in Article 1131 of the Civil Code, it is explained that all assets belonging to the debtor are collateral to fulfill their debt payment obligations, which provides a legal basis for LPD to demand collateral if the debtor fails to pay off its obligations.

Legal Consequences of Credit Misuse by Customers of Village Credit Institutions

In practice, non-performing loans are a serious problem faced by LPDs. Non-performing loans or bad loans can occur due to two main factors: first, due to the intentional failure of the debtor to meet payment obligations (default); Second, due to external reasons, such as the deteriorating economic condition of the debtor. Whatever the cause, this problem can threaten the sustainability of LPD's operations, because if left unchecked, it can affect the liquidity and financial stability of the institution. Therefore, LPD needs to take rescue measures to deal with these non-performing loans. One of the approaches taken is to use the 3R principle (Rescheduling, Reconditioning, and Restructuring) which aims to improve the situation and change credit requirements so that debtors can pay off their obligations in accordance with existing conditions.

Rescheduling is the process of changing the credit repayment schedule, including the possibility of providing a grace period for the debtor to pay installments. Reconditioning involves changing the terms in the credit agreement, such as lowering the interest rate or modifying the value of installments. Finally, restructuring is the rearrangement of credit obligations by providing additional funds or changing the structure of the agreement so that the debtor can meet payment obligations. Although these efforts are often successful in overcoming non-performing loans, it is

not uncommon for LPD to face difficulties in obtaining cooperation from debtors who are reluctant to make payments.

If the credit rescue effort fails, the next step to be taken is the implementation of customary sanctions, such as kasepekang, or social exclusion. Kasepekang is one of the most strict forms of customary sanctions, where debtors who violate customary rules will be excluded from the community, lose their social and religious rights, as well as their rights in the social life of the customary village. The application of these sanctions aims to maintain order and harmony in indigenous peoples, as well as to provide a deterrent effect to debtors who commit defaults. In this context, indigenous village communities have enormous social power, and customary sanctions have profound psychological effects, which can force debtors to fulfill their obligations.

According to I Wayan Lemes Indrawan, Bendesa of Tri Eka Bhuana Traditional Village, Sidemen District, Karangasem Regency, the credit policy at LPD refers to the principles of 5C, 7P, and 3R. In some cases, LPD in certain villages also provides a special policy related to credit application, where loans under Rp 2 million do not require collateral, but still must obtain approval from the local Kelian Banjar. This shows that there is flexibility in providing credit that is tailored to local wisdom, which also includes local social and cultural values. Therefore, although LPD operates like other financial institutions, the uniqueness of LPD's existence lies in the application of customary law and cultural values in credit management and the resolution of problems that arise.

Customary Sanctions as a Solution to Bad Loans

The application of customary sanctions in resolving bad loans in LPD shows that customary law has a very effective power in maintaining social and economic stability of customary villages. Through sanctions such as kasepekang, indigenous peoples in Bali seek to restore the social balance that has been disrupted due to debtors' negligence in fulfilling their credit obligations. In this context, customary sanctions are not only a punishment, but also a way to ensure that customary norms and values are maintained, as well as a reminder to communities of the importance of financial obligations in their social lives.

Customary sanctions also have a significant preventive purpose, namely to prevent the same problem from happening again in the future. With customary sanctions, indigenous village communities are expected to be more aware of the importance of maintaining harmonious social relations and fulfilling their obligations, both in the social and financial contexts. In addition, customary sanctions also serve to increase legal literacy among the community, which is very important to create a more law-abiding society and understand the consequences of violating the law, both customary law and state law (Suwitra, 2025).

CONCLUSION

The arrangement of customary sanctions against perpetrators of financial abuse of Village Credit Institutions (LPD) in Karangasem Regency is regulated in the awig-awig of their respective customary villages, which are the guidelines for the life of the Balinese customary law community. Kasepekang sanctions are applied to LPD customers who default or default, and aim to maintain stability and harmonization

in transactions at LPD. The enforcement of these sanctions is carried out fairly and responsibly, so as to provide benefits in saving LPD from losses due to bad loans. In addition, legal protection for LPD due to credit abuse is carried out with the active role of traditional practitioners and LPD administrators. Although the regulation has been listed in the awig-awig, this regulation is still minimal, so the customary village regulation needs to be clarified in order to provide a stronger legal basis in protecting LPD from potential losses caused by credit abuse.

Suggestion

To minimize credit abuse in LPD, it is recommended to carry out regular and continuous supervision and coaching from the customary village level to higher supervisory institutions. In addition, the arrangements in the customary village perarem need to be updated continuously to comply with applicable legal developments, both at the local and national levels. This is important to ensure that the management of LPD remains transparent, accountable, and in accordance with applicable legal principles. Furthermore, the enforcement of kasepekang sanctions should be carried out with the aim of providing balance and education to the community, so as to prevent arbitrariness. The application of these sanctions must pay attention to the principles of justice and benefits, while still prioritizing the principles of harmony and propriety, in order to create harmony in indigenous peoples and the sustainability of LPD.

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