



## Impact of Covid-19 on Troubleshooting Loans in Practice of Village Credit Institutions

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### ARTICLE INFO

### ABSTRACT

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This article analyzes the Impact of COVID19 on the Settlement of Non-performing Loans in the Practice of Village Credit Institutions. The focus of the study is on the dilemma faced by LPDs in Some Traditional Villages in Denpasar City in resolving non-performing loans in the era of the COVID19 pandemic. This problem is the focus of the study, because non-performing loans are a very frightening specter for communal financial institutions such as LPDs, even more so in the era of the COVID19 pandemic. If one takes legal action, it will certainly result in very dangerous for the survival of the LPD concerned. By using the method of providing professional services through discussions with LPD Management in Denpasar City Traditional Villages in resolving the impact of COVID19 on the settlement of non-performing loans in LPDs. Based on the results of interviews and discussions with LPD administrators throughout the city of Denpasar, it can be found that the LPD management in the era of the COVID19 pandemic in resolving non-performing loans is faced with a dilemma, namely on the one hand LPD has a special mission to help and encourage the economic development of traditional villages and improve the welfare of traditional village manners, but on the other hand, with the COVID19 pandemic, it turns out that credits channeled to fund borrowing customers (who are actually village manners themselves) have difficulty fulfilling their obligations to return credit installments as agreed in the credit agreement. In this position, the LPD Management is faced with between saving credit to maintain the health of the LPD's operations, or by executing a guarantee (guarantee) which will certainly create suffering for the Krama Desa Adat itself. In this activity, a solution has been provided so that the settlement of non-performing loans faced by LPDs during the COVID19 Pandemic Era is resolved through the Principles of Balinese Customary Law. "*Paras Paro, Gilik seguluk, Sarpaya ya sabayantaka*".

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### 1. INTRODUCTION

The COVID-19 pandemic has brought a fairly wide domino effect, and have a major impact on structural changes economy in society (Dewi & Utami, 2021), including the Village Credit Institution, hereinafter referred to as LPD. Traditional Villages as institutions that support the economy of Traditional Village communities, are faced with a number of increasingly complex challenges. The COVID-19 pandemic has brought the problems that develop in society are no longer purely customary, but also intersect with formal/national laws.

LPD as an institution that is expected to be able to be at the forefront of maintaining the economic resilience of the indigenous village community, is in fact faced with the problem of non-

performing loans and even bad loans. Considering that indigenous villagers who have received credit from the LPD are in fact unable to fulfill their obligations to the LPD, this is due to the loss of their source of income which has been the main support for family life. Likewise, people from several Traditional Villages in Denpasar City who have savings in the LPD who want their money to be withdrawn to meet their living needs, also cannot withdraw their money in the LPD, because the money stored in the LPD has circulated in the form of credit which is also channeled to the village community. It is customary, so LPD is experiencing a dilemma as a result of this COVID19.

Village Credit Institutions (LPDs) in Bali are still legal (Sundarianingsih, 2014), although since the enactment of Law Number 1 of 2013 concerning Microfinance Institutions, there has been a confusion of information regarding the legality of credit institutions, but when we refer to the provisions of Article 39 paragraph (3) UU no. 1 of 2013 concerning Microfinance Institutions it is determined that:

“Village Credit Institutions and Lumbung Pitih Negari as well as similar institutions that existed before this law came into effect, are declared to be recognized for their existence under customary law and are not subject to this law”.

Based on the provisions of the article, there is no doubt that the LPD in Bali is a financial institution that is subject to customary law. Moreover, it has been protected by the Bali Provincial Regulation Number 3 of 2017 concerning LPD. And it is further strengthened in Regional Regulation Number 4 of 2019 concerning Traditional Villages. Along with this, recently, amid increasing trust from the community in Traditional Villages, it was surprising that there was a growing issue that LPD funds in several Traditional Villages in Bali were being used in violation of financial management procedures. And it turned out that after being traced inside by the LPD supervisory agency in this case Bendesa, it turned out that by elements of the LPD management the funds that were saved to be managed in accordance with the customary village regulations regarding the LPD, turned out to have been used as a tool to make personal gains. Credit distribution does not pay attention to the principle of prudence, so that the noble goal of the Village Credit Institution (LPD) is no longer a tool to support the welfare of the Indigenous Village community but instead is used as a means of making personal gain at the expense of the interests of the indigenous village community. Memperhatikan fenomena tersebut, pengabdian ini bertujuan memberdayakan Lembaga Taking into account this phenomenon, this service aims to empower Village Credit Institutions (LPD) to support the people’s economy in Traditional Villages by adhering to the principle of prudence in lending. In the event of a deviation from this principle, the specific target of the implementation of this service is to help resolve all legal problems faced by LPDs in Indigenous Villages throughout Denpasar City. And besides that, this service has a target so that the Village Credit Institutions (LPD) in the Denpasar Traditional Villages are still able to become the spearhead of the Traditional Village Economy, in the midst of increasingly tough global economic competition. With this action program, it is hoped that the creation of security and comfort in social life. The existence of the LPD has an important role in ensuring the sustainability of the people’s economy which has been proclaimed by the government of the Republic of Indonesia through President Jokowi’s vision, namely to build Indonesia from the village.

Non-performing loans are a very frightening specter for financial institutions, both in the banking world, and in the Village Credit Institutions; because if one takes legal action, it will certainly result in very dangerous for the survival of the financial institution concerned (Ardiyati, 2018; Suartama et al., 2017). Furthermore, it is possible for the financial institution to become unhealthy and eventually have to be liquidated. The aim of this research is to examine in more depth specifically about the Impact of COVID-19 on the Settlement of Non-Performing Loans at the Village Credit Institution (LPD).

## 2. DISCUSSION

The definition of credit according to the provisions of Article 1 number 11 of Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking is stated that:

“Credit is the provision of money or an equivalent claim, based on a loan agreement or agreement between a bank and another party that requires the borrower to repay the debt after a certain period of time with the amount of interest.”

Along with the development of financial transactions in the era of globalization and moreover the impact of the COVID-19 pandemic which has led to more integration of financial products and services carried out by Banks and LPDs, so that it does not rule out the occurrence of non-performing loans. Credit when viewed from the criteria is divided into: current credit, substandard credit, credit with special attention, doubtful credit, and bad credit. The non-performing loans include substandard, doubtful, credit with special attention and bad credit.

Even though preventive efforts have been made so that credit does not become problematic, it is not impossible that credit jams also occur for certain reasons, more so as has happened in the last two years, namely the COVID19 pandemic. Traditional Villages in Denpasar City which are divided into 35 Traditional Villages all have LPD. And at the time of the COVID19 pandemic, many LPD operations experienced non-performing loans, which was an unavoidable impact in the Bali region that only relied on tourism. Of the 35 LPDs belonging to Traditional Villages in Denpasar City, most of them have non-performing loans, either in the substandard category, special attention is doubted, and some even have bad loans. If the credit has become problematic like that, then the LPD will first think about and look for ways to save it through a program called credit rescue. These efforts were carried out before the LPD took measures called credit collection.

Credit rescue efforts will only be taken by the LPD if the LPD feels confident that the debtor's business still has prospects and good faith to cooperate with the LPD in resolving the non-performing loans still exists. However, if these two things are not present, the LPD will immediately make efforts to settle credit. The following will describe several credit rescue efforts and their settlement efforts.

#### **A. Credit Rescue**

##### **a. Efforts**

What is meant by LPD efforts called credit rescue are LPD efforts to re-launch "non-performing loans" to return to "current loans", so that they have the ability to pay back LPDs, both interest and principal. The credit rescue efforts that can be done are:

1. Rescheduling, which is an effort in the form of changing the terms of the credit agreement with regard to the credit repayment schedule or credit period, including the grace period or grace period, whether or not including changes in the amount of installments.
2. Reconditioning, which is an effort in the form of making changes to part or all of the terms of the credit agreement, which is not limited to changes in the installment schedule or credit period. However, the change is without providing additional credit or without converting all or part of the credit into company equity.
3. Restructuring, namely efforts in the form of changing the terms of the credit agreement, or converting all or part of the credit into company equity, which is carried out with or without rescheduling or reconditioning.

##### **b. Some problems**

LPD's efforts to think about and find ways to be able to carry out credit rescue programs often encounter the following difficulties:

1. The business prospects of debtor customers, most of whom are located as adat Village residents (Village Villagers) are still good, but show a reluctance to be invited to cooperate by LPD to seek the rescue program. For example, customers who are actually village manners themselves are reluctant to replace personnel who sit in the management of companies/businesses run by debtors.
2. Difficulty in finding business partners who are willing and able to enter additional capital (fresh money), even though the business prospects and cooperation of debtor customers are good.
3. Difficulty in finding buyers in order to sell the company's assets to unproductive debtors in order to improve the company's financial structure.
4. In the case of a syndicated loan, it is difficult to obtain an agreement from the syndicated LPDs regarding the terms of credit rescue.

5. Debtor customers who are village manners, after the rescue program is approved and stated in the agreement, it turns out that later they cannot fulfill the obligations found as conditions for credit rescue.

## B. Credit Billing

If according to the LPD's consideration, it is impossible to save the non-performing loan to return to normal through the rescue efforts as described above and eventually the credit becomes non-performing, then the LPD will take action to collect the bad credit. What is meant by efforts to collect non-performing loans is an LPD effort to recover payments, both from debtor customers and or from guarantors, for LPD loans that have become problematic with or without liquidating the collateral.

Some efforts to settle or collect bad loans can be taken by the LPD in the following ways:

### 1. Collateral Execution

If the debtor's business has become bogged down while the debtor's customer does not have other sources to repay his credit, the LPD will execute the credit collateral under his control. In accordance with the form of binding provided by law, binding on collateral goods is carried out by mortgage, pledge, and f.e.o. namely the binding of collateral that gives preference rights to the LPD. For receivables, the binding is usually done on a cessie basis (transfer of receivables). Sometimes collateral items are tied up by LPD not with mortgage, pledge, or f.e.o. but only done by getting the power to sell from the debtor's customer.

If the collateral is in the form of a guarantee from a third party (bortocht) either in the form of a personal guarantee or a corporate guarantee, the LPD will contact the guarantor to pay off the bad debts from the debtor customers who are guaranteed.

### 2. Through the Litigation Process

The main characteristic of the LPD in Bali is that it is a financial enterprise owned by the Traditional Village; carry out business activities within the territory of the Traditional Village, and carry out financial services for the manners of the Traditional Village (Sukandia, 2019). Because the LPD is a business entity owned by the Traditional Village, as long as the collection of bad loans can be done with an agreement between the LPD Management and the debtor customer as a customary village cramp, credit collection through a litigation process in court will not be carried out by the LPD Management. The litigation process will only be taken by the LPD Management if the debtor customer (Krama Desa Adat) has bad intentions, i.e. does not show good will to repay the credit, while the debtor customer as krama desa adat actually still has other assets that cannot be controlled by the LPD or intentionally hidden or have other sources to resolve the bad credit.

The position of the LPD as a druwe communal financial institution based on customary law was established by and to improve the welfare of customary village manners and encourage rural economic growth; However, the existence of LPDs in Bali has a very unsatisfactory experience when it comes to resolving bad debts through the litigation process. These things are caused by the following factors:

- First,** the process is very long, that is, it can take years, starting from the process at the first level court (District Court), proceeding to the high court and even up to the process at the Supreme Court; Although there is a principle of "simple, fast and low cost trial", in reality litigation in court requires time and money that is not as simple as we imagine.
- Second,** inadequate legal knowledge and knowledge of credit issues in the LPD from the judges examining the non-performing credit case. Often the LPD obtains court decisions that actually contradict the applicable legal provisions. In other words, due to inadequate knowledge of the judge examining the case, the decision taken was based on the wrong application of the law.
- Third,** the poor integrity of the judge examining the case, it is no longer an open secret regarding the many practices referred to by law as "judicial mafia";
- Fourth,** the a priori attitude of the court which considers that in the credit agreement relationship between the LPD and the debtor's customer, the debtor's customer is a weak party that must be protected against the LPD who often acts arbitrarily in that

relationship. Courts often consider the LPD to have “abused the situation” (misbruik van onstandigheiden) when the credit agreement was made between the LPD and the debtor customer who at that time, according to the judge, was in a state of helplessness because he really needed the LPD credit. It is also often argued by the court that the LPD in exercising its authority or rights based on the clauses in the credit agreement which gives the LPD the right and authority to take certain actions against the use of credit and/or against the customer of the debtor concerned, is often judged by the court as actions that are contrary to the principle of propriety, the principle of justice, the principle of good faith, or as an act against the law. The court’s attitude regarding the fourth factor, it is not impossible, is related to the impression that often arises in the community that in the credit agreement relationship between the LPD and the debtor customer, the bargaining position between the two parties is in such a way that the LPD is the strong party while the customer is the third party. the weak.

Related to this, (Sjahdeini, 2009) said that often banks are in a weak position when dealing with debtor customers. Analogous to this, the LPD in distributing credit to customers is actually on the weak side, moreover the credit has been used by debtor customers, most of whom are customary village manners themselves. The position of the LPD may be different when the credit will be given (the principle of negotiation to enter into a credit agreement) compared to when the credit has been issued and used by the debtor’s customer. The position of the LPD also depends on the class of debtor customers who enjoy credit. For clarity, the following will be described as follows:

- When a loan is to be granted, in general, the LPD is in a stronger position compared to the prospective debtor. This is because at the time of making the agreement, prospective debtor customers really need credit assistance from the LPD. In this case, in general, prospective debtors will not demand much because they are worried that the credit grant will be canceled by the LPD. This causes the LPD’s bargaining position to be very strong. This is true if the potential debtor customers include medium-sized entrepreneurs or businessmen belonging to the weak economic class whose numbers are very large, especially for the customary village manners themselves, while the amount of available LPD funds is very limited to be enjoyed by most entrepreneurs belonging to this group. For medium-sized entrepreneurs from weak economic groups, credit has a “seller’s market” position.
- However, after the credit was granted based on the credit agreement, it turned out that the LPD’s position was weak. The position of the LPD after the credit is given depends a lot on the integrity of the debtor’s customer, which is customary village manners. If the debtor customer does have good integrity not to misuse credit or in good faith is willing to pay back the credit that has become bad, then indeed the LPD does not need to seek a solution through legal assistance; rather, it would be wiser to solve the problem of non-performing loans through the Paruman Desa Adat or Paruman Banjar Sadat, so that the traditional village awig-awig will be able to provide the best solution to the problem of non-performing loans faced by LPDs.
- But what often happens is that in a condition where credit becomes bad, either because credit has been misused by debtor customers or because the debtor customer’s business has stalled, such as the impact of the COVID19 pandemic, it turns out that LPD cannot rely on contract enforcement facilities provided by law. The contract enforcement facilities provided by the law are very inadequate to be able to provide protection to the LPD in order to repay the loan. The contract enforcement facilities provided by law are so inadequate to protect the interests of the LPD, so that it often leaves the LPD completely powerless, even more so when dealing with the cramps of the Traditional Village itself and eventually being forced to have it removed from liability.

So tragic is the situation experienced or faced by the LPD as a result of the impact of COVID19, so that many of the actions taken by the LPD Management based on the authority given by the clauses in the credit agreement turned out to be by the court (on the basis of the debtor customer’s lawsuit) declared as an act that is contrary to propriety, or justice, or good faith, or as an act against the law. Because the noble purpose of the existence of this LPD is to encourage and strengthen the economic growth of Traditional Villages, in the event of non-performing loans faced by traditional

village cramps, the best solution taken by the LPD management is to resolve this credit problem through the principles of Balinese customary law.”*paras paro, gilik seguluk, sarpana ya sabayantaka*”. means solving existing problems by prioritizing the creation of harmony in traditional villages.

### 3. CONCLUSION

The existence of LPDs in several Traditional Villages in Denpasar City during the era of the COVID19 pandemic faced many difficulties in resolving non-performing loans, because on the one hand LPDs had a special mission to assist and encourage the economic development of traditional villages and improve the welfare of customary village manners, but on the other hand others, with the COVID19 pandemic, it turns out that the credits channeled to borrower customers (which are actually customary village manners) themselves have difficulty fulfilling their obligations to return their credit installments as agreed in the credit agreement. In this position, the LPD Management is faced with a dilemma between “saving credit” and “executing collateral (collateral)”; which will certainly create disharmony in the Traditional Village. Taking steps to save means that LPD’s cash-flow will be disrupted, and if taking steps to execute grace means there will be suffering for the Krama of the Indigenous Village itself.

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