

Research Article

Determinants of Empowerment and Performance of Village Credit Institutions (Lembaga Perkreditan Desa) in Gianyar District

¹Adek Wahyu Diantari Wangsa, ²Ni Nyoman Yuliarmi

^{1,2}Faculty of Economics and Business, Udayana University, Bali, Indonesia.

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Abstract: Microfinance Institutions (MFIs) have grown as instruments for economic development aimed at benefiting low-income individuals. LPD (Lembaga Perkreditan Desa) are financial institutions owned by traditional communities and independently regulated through local regulations and provisions. The development of LPD in each customary village can reduce unemployment and contribute to alleviating poverty among village residents. This research is a quantitative associative study. Probability sampling was used to collect data, with 112 active LPD managers in Gianyar Regency as the sample size. The data analysis technique used was SEM PLS. The analysis results show that 1) Transaction Costs, Social Capital, and Empowerment have a positive and significant effect on performance. Meanwhile, Local Wisdom and Technology have a positive but insignificant effect on the performance of Village Credit Institutions in Gianyar Regency. 2) Local Wisdom, Technology, Transaction Costs, and Social Capital have a positive and significant effect on the Empowerment of Village Credit Institutions in Gianyar Regency. 3) Local Wisdom, Technology, Transaction Costs, and Social Capital indirectly have a positive and significant effect on performance through the Empowerment of Village Credit Institutions in Gianyar Regency.

Keywords: Local Wisdom, Technology, Transaction Cost, Social Capital, Performance, Empowerment, Village Credit Institutions.

I. INTRODUCTION

Since the late 1990s, Microfinance Institutions (MFIs) have grown as instruments of economic development with the aim of providing benefits to low-income individuals. According to Ledgerwood (1999), the main goal of MFIs as development organizations is to meet the financial needs of market segments that are unaffordable or inadequately served. The World Bank (1996) states three main objectives of MFIs: first, boosting the productivity and income of vulnerable populations, particularly women and the impoverished; second, increasing job opportunities and financial options through the founding and growth of microenterprises; and third, lessening the reliance of the countryside on crops that are at risk of failure due to drought by carrying out various income-generating activities (Suarmanayasa, 2016). In short, MFIs are expected to reduce poverty, which is considered the most important development goal. LKM stands for Law No. 1 of 2013 Concerning Microfinance Institutions, which defines financial organizations as those specially created to offer services related to business growth and empowering the community. These services may include controlling savings accounts, lending money to members and the community for micro-scale business ventures, or providing business development assistance services that go beyond making a profit.

According to Law Number 1 of 2013 concerning Microfinance Institutions, LPDs are recognized by the government, but their regulations are determined by the regional government in accordance with their local values. As a result, based on this law, LPD is a financial institution owned by traditional communities and regulated independently through regional regulations and provisions, including in the form of a Self Regulatory Organization (SRO), which means that its regulation does not depend on the government like financial services financial institutions other. LPD management is fully carried out by traditional villages, while guidance and supervision are carried out by the provincial government and the Regional Development Bank (name Bank Pembangunan Daerah). The LPD is led by an LPD head who is elected through village deliberation, with an organizational structure that is separate from the traditional management structure but has direct responsibility to the customary member.

LPD is a financial entity that has unique characteristics. LPD is a financial institution that has special characteristics, namely ownership by the Balinese traditional community (Wyasa Putra, 2011). Suartana (2009) emphasized that LPD's speciality can be seen from the way its capital is developed, which is very different from other financial institutions. LPD capital comes from Pakraman village, which is a Balinese traditional community body. On the other hand, other financial institutions may raise capital from members or shareholders. LPD capital is shared ownership of the community, and therefore,



its responsibility is also directed to the community through the Pakraman village lung. The idea of establishing LPD was initially an idea that developed into part of the local culture and wisdom of the Balinese people, which was effectively rooted in Balinese customs and culture (Wedantara & Adi, 2019). Different from other banking institutions, LPD is a form of microfinance institution based on local wisdom. LPD was officially confirmed by Bali Governor Decree No. 972 of 1984, November 1 1984. The existence of Village Credit Institutions (LPD) is not only intended to spur rural economic development but also to avoid bondage from middlemen or loan sharks (Sudibia et al. 2016).

LPD’s contribution to the economic development of rural areas is consistent with the organization’s vision and goal. In order to enhance the cultural riches of the country, LPD aspires to establish a robust, productive, and trustworthy microfinance organization that supports rural development and preserves Tri Hita Karana-based Balinese regional customs and culture. Traditional village activities such as tattwa, religious morality, and traditional and religious ceremonies all aim to achieve harmony in life in society, or what is better known as the concept of tri hita karana. The concept of tri hita karana contains the meaning of three balances in life that lead to achieving prosperity in society. The three balances in life are balance between fellow humans, balance with nature and the environment, and balance with God. Furthermore, The goal of the LPD is to establish favourable circumstances that will promote enhanced LPD performance and long-term financial services to traditional village dwellers in order to boost economic development and enhance the welfare of village customs in the Bali area (Sadiartha, 2011). There are also functions and objectives of LPD, namely to (1) provide business opportunities for local village residents (village manners); (2) accommodating workers who come from village traditions; (3) smooth payment traffic; (4) eliminating the existence of loan sharks (Suartana, 2009).

Paying attention to the objectives above, indirectly, the development of LPD in each traditional village will be able to reduce unemployment and, at the same time, help overcome the poverty experienced by the village community. The pattern of representation in the recruitment of LPD administrators and employees has implications for the formation of an LPD network in each banjar (hamlet). This network makes it easier to recognize LPD customers in each banjar. The existence of social capital in the form of trust between LPD and residents makes LPD dare to provide credit without collateral to residents with certain limits. Social capital also plays a very important role in resolving bad credit, applying customary sanctions and residents’ habits to avoid embarrassment to the general public if they are found to be in arrears at the LPD and facilitating residents’ compliance with transaction obligations. The success of LPD as a microfinance institution based on local wisdom is determined by various factors, not only from the participation of village communities (village krama) as members but also in their role as administrators/managers and supervisors of LPD. This is important to understand because all village people in a traditional village automatically become members of the LPD, so morally, all village people contribute to the progress of an LPD. Until August 2023, the number of LPDs in Bali Province reached 1,326 units, and of the 1493 traditional villages in Bali Province, most of them already had LPDs (Suartana, 2009; Sadiartha, 2011). An overview of the number of LPDs and traditional villages by district/city in Bali Province in 2023 can be followed in Table 1.

Table 1: Distribution of the Number of LPDs and Traditional Villages Detailed by Regency/City in Bali Province as of August 2023

No	Regency/City	Number of Traditional Villages	LPD	
			Total	Percentage
1	Jembrana	64	64	100.00
2	Tabanan	349	311	89.11
3	Badung	122	122	100.00
4	Gianyar	273	270	98.90
5	Klungkung	122	119	97.54
6	Bangli	168	159	94.64
7	Karangasem	190	190	100.00
8	Buleleng	170	169	99.41
9	Denpasar	35	35	100.00
	Bali Province	1,493	1,439	96.38

Source: LPLPD Bali Province, 2023

From Table 1, it can be seen that the overall proportion of LPDs to the number of traditional villages in Bali Province reached 96.38 percent; in other words, the percentage of traditional villages in Bali Province that do not have LPDs is less than 4 percent. According to districts/cities, it was found that almost all districts/cities in Bali Province showed that all traditional villages in their area already had LPD. Even though the number of LPDs in Bali Province shows very rapid development as described above, along the way, not all LPDs have succeeded in achieving progress as expected.

In 2023, as of August, the number of LPDs classified as healthy and quite healthy will be 936. On the other hand, there are 492 LPDs classified as unhealthy, unhealthy and congested, and the number of LPDs that are not operational is 107. If it is related to the total number of LPDs in the year concerned, almost half of the LPD units experienced problems (Bali Province LPLPD Report August 2023). Details regarding LPD Health in each district/city can be seen in Table 2.

Table 2: Number of LPDs Broken Down by Health in Bali Province as of August 2023

No	Regency/City	Healthly	Enough Healthy	Unwell	Not healthy	Not Operation	Total
1	Denpasar	22	5	4	3	1	35
2	Badung	45	32	25	15	5	122
3	Buleleng	77	22	31	17	22	169
4	Jembrana	51	5	4	3	1	64
5	Tabanan	157	57	42	19	36	311
6	Gianyar	84	60	66	44	20	270
7	Bangli	84	35	22	13	5	159
8	Klungkung	54	28	23	9	5	119
9	Karangsem	86	40	36	12	16	190
	Bali Province	647	284	253	135	107	1,439

Source: LPLPD Bali Province, 2023

In 2023, LPDs that are unhealthy to unhealthy will reach 388 units, and LPDs that are not operating will be 107 LPD units. It can be seen in the data that Gianyar Regency, as the second largest LPD holder after Tabanan, has 66 unhealthy LPD units and 44 unhealthy LPD units. This number is the highest compared to other Regency/City LPDs spread throughout Bali Province. LPDs should always pay attention to the health level of their LPDs to increase public trust in the LPDs themselves. According to Krismaya (2014), performance is said to be good when assessing all aspects with a healthy predicate, and this data provides information that there are still deficiencies and problems experienced by the LPD, where these problems can influence the LPD's performance in providing the best service to village communities.

As is the case with the Gianyar Regency Village Credit Institution (LPD), a village-owned banking institution that is crucial to the financial growth of the village. Its primary function is to gather savings and deposits from the community and distribute them to other communities that require loans or credit. In developing its business, the Gianyar Village Credit Institution (LPD) cannot be separated from the trust of the community or customers to continue collecting funds. Gianyar Regency is an area where the community still uses LPD as a source of funding and is expected to improve community welfare by providing funding through credit.

Table 3: Number of Gianyar Regency LPD Customers Detailed by Product Type 2019-2022 (People)

No	Product	Number of Customers			
		2019	2020	2021	2022
1	Loan	974,686	1,037,464	1,004,092	929,533
2	Savings	4,546,392	5,066,735	5,100,902	5,232,330
3	Deposit	540,645	621,636	597,095	572,731
	Total	6,061,723	6,725,835	6,702,089	6,734,594

Source: LPLPD Bali Province, 2023

From Table 3, it can be seen that overall, the increase in the number of community members participating in using LPD in Gianyar Regency increases every year. The large increase in the number of LPDs in the above period appears to be due to the high public interest in using LPDs because they are seen as helping rural communities, both for productive and consumptive purposes. However, along the way, not all LPDs succeeded in achieving progress as expected. In 2023, for the August period, it was recorded that the profit earned by Gianyar Regency was only 13,917 million rupiah. The detailed data can be seen in Table 4.

Tabel 4: Perkembangan Keuangan Lembaga Perkreditan Desa (LPD) Kabupaten Gianyar 2019-2022 (Rupiah)

Description	Years			
	2019	2020	2021	2022
1 Profit	753,779,056	543,652,263	219,215,543	120,655,610
2 Current Credit	33,060,418,260	32,354,634,468	29,314,450,293	26,730,033,178
3 Substandard Credit	1,648,829,223	3,125,670,333	7,181,230,847	4,644,150,652
4 Doubtful Credit	967,179,206	1,894,134,397	3,701,148,761	3,382,224,653
5 Bad Credit	1,311,351,245	3,433,555,320	3,382,224,653	4,525,184,234

Source: LPLPD Bali Province, 2023

Based on Table 4, it can be explained that there is a decrease in profits every year, and if you look at the current credit classification, it also decreases every year. The bad credit aspect that occurs in LPD Gianyar Regency has also increased from year to year, as well as doubtful credit and substandard credit. Credit distribution is one form of LPD's connection with the community. Credit is the most important operational activity and can have an impact on LPD operational activities because it has the biggest role in contributing income to LPD (Mashudi et al., 2018).

LPDs operating in the financial sector are making various efforts to ensure that the trust of village communities as customers continues to grow. Pakraman Village LPD must transform into digitalization of the financial system; LPD must be innovative in producing various bright ideas as a form of improving services to customers. The digitalization of the financial sector must be addressed with creative ideas, such as those owned by LPD, namely, LPD Mobile and MPise, including QRIS and ATM, which have collaborated with BPD Bali. The digitalization market is very large, and this potential should be captured and managed by LPDs to capture the market and improve services and public trust. This good performance requires innovation that can become a competitive advantage for the company. According to Bali News (2022), it was stated that the use of information and technology resulted in an increase in LPD Mas Ubud's assets reaching IDR 220 billion with a net profit of IDR 2.6 billion. Even though it has decreased, the profits obtained are still quite high. The figure is IDR 2.6 billion. This decrease in profits is due to the cost of funds still being quite high, and this cannot yet be reduced.

Apart from credit, costs incurred in LPD operational activities can also affect the performance of an LPD. An institution emerges and develops to minimize transaction costs so that it can improve economic performance. The costs of information gathering, contract implementation, oversight, cooperation, and negotiations are all included in the expenses associated with the transaction. During its development, the Gianyar Regency LPD also incurred costs to carry out its LPD operational activities. The total costs incurred are detailed in Table 1.3, where every year, the costs incurred for operational activities increase, except in 2022, which decreased. North (1991) and Mburu (2002) in Yustika (2008) define transaction costs as the costs incurred in negotiating, measuring and enforcing exchanges. An institution is efficient if it can keep transaction costs as low as possible. One way that can be done to improve LPD performance is by carrying out empowerment activities. Existing research on LPDs reveals that LPD empowerment plays an important role in encouraging the collection of funds and channeling them back to the community in the context of rural development in a broad sense. Triatmanto et al. (2010) stated in their research that empowerment can improve performance; empowerment is one of the determining factors of performance, so it can be said that empowerment has an important role in improving performance. Village Credit organizations (LPD), being microfinance organizations, play a crucial role in reducing poverty by providing low-income people with access to financial capital. Distribution of credit is LPD's primary business activity. Its primary role is that of a middleman, bringing together those in need of money and those with surplus in order to promote more efficient use of the available financial resources. This function emphasizes even more how crucial it is to keep LPDs operating as MFIs in order to ensure their sustainability (Saskara et al, 2020).

II. RESEARCH METHOD

This research uses an associative quantitative approach. The location chosen in this research was the LPD in Gianyar Regency. This research location was chosen because, based on data obtained from the Bali Province LPLPD, Gianyar Regency has the highest number of unhealthy to unhealthy LPDs compared to other Regency/City LPDs, as well as bad credit, which increases every year. In this survey, 250 LPDs in Gianyar Regency were active. The Probability Sampling method, which gives every element (member) in the overall population an equal chance of being chosen as a sample participant, is the sampling strategy employed in this study. Eleven² (rounded) managers from each LPD in the Gianyar Regency were the sample size. Quantitative and qualitative data from both primary and secondary sources are the two categories of data used in research. The data collection method in this research uses several methods, namely observation, questionnaires, structured interviews and in-depth interviews. In this research, an inferential (inductive) statistical approach analysis will be carried out using SEM (Structural Equation Modeling) analysis using PLS (Partial Least Squares).

III. RESULTS AND DISCUSSION

The respondents in this research are Village Credit Institution (LPD) Managers in Gianyar Regency. The characteristics of the respondents will be explained in detail in Table 5 based on gender, marital status, education level and age. Based on Table 5, it can be seen that the number of LPD managers sampled was 112 people. The results in the field show that the number of male respondents is much greater than the female respondents, namely 91 male respondents and 21 female respondents. Female employees who originally came from outside the village area, then married and became krama (residents) of the village must wait a minimum of 5 (five) years to be selected and accepted as LPD employees. Judging from age characteristics, if they range between 15-64 years, they are classified as productive age residents, whereas if their age has reached 65 years or above, then they are classified as non-productive age residents. In the table, there are three age groups that

stand out in this study, namely 40-49 years old and 50-59 years old, which cover more than 80 percent of respondents.

Table 5: Characteristics of Respondents Managing Village Credit Institutions (LPD) in Gianyar Regency

No	Category		Number of Respondents	
			Person	Percentage (%)
1	Gender	Female	21	19
		Male	91	81
	Total		112	100
2	Age	30 – 39 year	10	9
		40 – 49 year	41	37
		50 – 59 year	56	50
		≥ 60 year	5	4
Total		112	100	
3	Marital Status	Not married	6	5
		Married	106	95
	Total		112	100
4	Last education	Senior High School	51	46
		Diploma	3	3
		Bachelor	53	47
		Masters	5	4
Total		112	100	

Overall, it was found that almost 95 percent of respondents were married, while the remaining 5 percent were respondents who were never married. The large proportion of respondents who are married is closely related to the age composition of respondents, all of whom are adults. The number of respondents with the highest level of education was Bachelor’s, namely 53 respondents, followed by High School with 51 respondents. This is because the criteria for being able to become an LPD employee are at least a high school graduate or equivalent.

The results of the Partial Least Square analysis in this study are shown in Table 6.

Table 6: Partial Least Square Analysis

Variable	Item	Pearson Correlation	Discriminant Validity	Cronbach Alpha	Composite Reliability
Local wisdom	X _{1.1}	0.820	0.855	0.918	0.915
	X _{1.2}	0.908			
	X _{1.3}	0.945			
	X _{1.4}	0.913			
Technology	X _{2.1}	0.958	0.881	0.970	0.933
	X _{2.2}	0.929			
	X _{2.3}	0.986			
	X _{2.4}	0.958			
Transaction Fees	X _{3.1}	0.865	0.831	0.875	0.899
	X _{3.2}	0.882			
	X _{3.3}	0.854			
	X _{3.4}	0.809			
Social Capital	X _{4.1}	0.802	0.848	0.905	0.911
	X _{4.2}	0.943			
	X _{4.3}	0.874			
	X _{4.4}	0.912			
Empowerment	Y _{1.1}	0.981	0.896	0.956	0.942
	Y _{1.2}	0.956			
	Y _{1.3}	0.981			
	Y _{1.4}	0.832			
Performance	Y _{2.1}	0.911	0.906	0.976	0.948
	Y _{2.2}	0.969			
	Y _{2.3}	0.958			
	Y _{2.4}	0.929			

Table 6 shows that all statement indicators in this research variable have a Pearson correlation value greater than 0.30, so all indicators are declared valid. The discriminant validity value is greater than 0.5, so it can be stated that the data in the research is valid. The Cronbach's alpha and Composite reliability values for each variable are greater than 0.70, so it can be stated that the data in the research is reliable. The R-Square (R²) value for each endogenous variable is presented in Table 7.

Table 7: R-Square Value (R²)

Variable	R-Square (R ²)
Empowerment	0.860
Performance	0.838

Based on the table above, the model for the influence of independent variables on the Empowerment variable has an R-Square (R²) value of 0.860. This can be interpreted to mean that the variability of the Empowerment variable can be explained by the independent variables Local Wisdom, Technology, Transaction Costs and Social Capital, amounting to 86 percent, while 14 percent is explained by other variables outside the research. Meanwhile, the R-Square value of the model of the influence of the independent variables Local Wisdom, Technology, Transaction Costs, Social Capital and Empowerment on Performance is 0.838. This shows that the Performance variable can be explained by the variables Local Wisdom, Technology, Transaction Costs, Social Capital and Empowerment by 83.8 percent, while 16.2 percent is explained by variables outside the model. The Q-Square (Q²) value obtained was 0.698. This value is greater than 0 (>0). This shows that 69.8 percent of the variation in endogenous variables is influenced by exogenous variables, while 30.2 percent is explained by other variables outside the research variables.

Hypothesis testing is carried out to determine the significance of the influence of the independent variable on the dependent variable. Testing is carried out with a p-value smaller than the alpha value of 5% (<0.05), and the t-statistic value must have a value greater than 1.96 (>1.96).

Table 8: Test Results of the Direct Effect of Independent Variables on Variable Y₁

Direct Effect	Path Coefficient	SD	T-Statistic	P-value	Description
X ₁ -> Y ₁	0.282	0.094	3.014	0.003	Significant
X ₂ -> Y ₁	0.260	0.118	2.197	0.030	Significant
X ₃ -> Y ₁	0.236	0.063	3.764	0.000	Significant
X ₄ -> Y ₁	0.255	0.088	2.900	0.005	Significant

Information:

X1: Local Wisdom X4: Social Capital
 X2: Technology Y1: Empowerment
 X3: Transaction Cost Efficiency Y2: Performance

Based on the test results in Table 8, the following equation can be created:

$$\hat{Y}_1 = 0.282 X_1 + 0.260 X_2 + 0.236 X_3 + 0.255 X_4$$

Based on Table 9, it shows the test results of the direct influence of the independent variable on the dependent variable.

Table 9: Test Results of the Direct Effect of Independent Variables on Variable Y₂

Direct Effect	Path Coefficient	SD	T-Statistic	P-value	Description
X ₁ -> Y ₂	0.179	0.087	2.061	0.042	Significant
X ₂ -> Y ₂	0.085	0.134	0.638	0.525	Not Significant
X ₃ -> Y ₂	0.136	0.065	2.082	0.040	Significant
X ₄ -> Y ₂	0.221	0.110	2.011	0.047	Significant
Y ₁ -> Y ₂	0.376	0.113	3.313	0.001	Significant

Information:

X1: Local Wisdom X4: Social Capital
 X2: Technology Y1: Empowerment
 X3: Transaction Cost Efficiency Y2: Performance

The results of the analysis show that the variables Local Wisdom, Transaction Costs, Social Capital, and Empowerment have a significant influence on the Performance variable. In contrast, the Technology variable is not significant. Based on the test results in Table 9, the following equation can be created:

$$\hat{Y}_2 = 0.179 X_1 + 0.085 X_2 + 0.136 X_3 + 0.221 X_4 + 0.376 Y_1$$

The results of the analysis of each variable can be seen in Table 10 as follows:

Table 10: Test Results of the Indirect Effect of Independent Variables

Influence	Path Coefficient	SD	T-Statistic	P-value	Description
X1 -> Y1 -> Y2	0.106	0.049	2.159	0.033	Significant
X2 -> Y1 -> Y2	0.098	0.048	2.029	0.045	Significant
X3 -> Y1 -> Y2	0.089	0.041	2.161	0.033	Significant
X4 -> Y1 -> Y2	0.096	0.045	2.134	0.035	Significant

The results of the analysis show that local wisdom has a positive and significant influence on empowerment. Local wisdom directly strengthens the empowerment of Village Credit Institutions (LPD). The application of local wisdom helps LPD managers to have a deep understanding of the social, cultural, economic and environmental conditions of their region. With a deep understanding of local wisdom, the LPD will be more empowered to design and implement programs that suit the needs and characteristics of the village itself. Just as the application of local wisdom teaches moral values such as honesty/Satya, LPDs that are based on Satya values tend to have a high level of trust from the community. Upholding truth and honesty helps build LPD's reputation as an institution that can be trusted and is fair in decision-making. Running the LPD based on its yadnya, where the LPD donates funds to local temples, can increase community support and involvement in activities carried out by the LPD, strengthening the institution's empowerment in making important decisions. This strengthens LPD's position as an institution that is respected and recognized for managing resources and making important decisions that affect people's lives. Local wisdom often reflects the rich culture and history of an area. When traditional values are maintained and respected, this can strengthen people's identity and increase their self-confidence. Strong identity and self-confidence can be the basis for empowerment, as they enable individuals and groups to take steps towards change and development. The results of this research are supported by Saskara et al. (2020), Hidayat and Syahid (2019), and La Taena (2011), who state that wisdom influences empowerment. Local wisdom includes traditional knowledge about resource management, one of which is economics. By applying local wisdom principles in management, LPD can ensure that these resources are used sustainably to support economic development and community welfare.

The results of the analysis show that technology has a positive and significant influence on empowerment. Technology directly strengthens the empowerment carried out by Village Credit Institutions (LPD). Technology has the potential to improve the efficiency, accessibility and effectiveness of services provided by LPDs. The use of technology can reach more members of society, especially those in remote or geographically difficult-to-access areas. Technology can help LPDs increase their operational efficiency through process automation, ease of use of software, and information system integration. This can reduce administrative costs and the time required to handle financial transactions, thereby increasing the availability of resources for empowerment programs carried out by LPD. The use of technology allows LPDs to use financial information systems that make it easier to record, report or audit finances. This increases transparency in the management of village funds and reduces the risk of errors or misuse. The results of this research are supported by Bustomi et al. (2021), Andrawati et al. (2018), and Rahmiyati et al. (2015), who state that technology has a positive and significant effect on empowerment. Using technology for empowerment with technical and non-technical assistance can help increase transparency and accountability in fund management and operations. The use of an integrated information system can make it easier to track and report financial transactions in real-time, thereby minimizing the risk of misuse or loss of funds. By effectively utilizing the potential of technology, LPDs can strengthen their role in supporting the economic and social empowerment of village communities.

The results of the analysis show that transaction cost efficiency has a positive and significant influence on empowerment. Transaction cost efficiency directly strengthens the empowerment of Village Credit Institutions (LPD). Transaction costs are very important for LPD managers to understand because they can increase the empowerment of the LPD itself. If transaction costs incurred by a company are high, then it does not reflect an efficient business, but if transaction costs can be kept as low as possible, then business activities can be said to be running efficiently. Transaction cost efficiency in this research has a significant effect on the empowerment of Village Credit Institutions (LPD) in Gianyar Regency. This means that LPD managers are aware of this and strive to keep the transaction costs incurred as low as possible. The results of this research are in line with research conducted by Saskara et al. (2020); Yishuai et al. (2019) stated that transaction costs have an effect on empowerment. Williamson (2000) states that the limitations possessed by individuals or groups will always be faced with incomplete information or give rise to information uncertainty. Limitations possessed by individuals and groups result in costs to obtain information. However, the costs incurred to obtain this information must be reduced so that the company becomes efficient.

The results of the analysis show that social capital has a positive and significant influence on empowerment. Social capital can directly strengthen LPD empowerment in the Gianyar Regency. The presence of this social capital plays an important role in building adaptation to environmental, social or economic changes. LPDs that have strong social networks are better able to adapt and overcome challenges or crises that may occur in the future. LPDs that manage social capital well can

become centers of innovation and adaptation in facing changing times. Social capital builds trust among village community members in the LPD as a trustworthy and responsible institution. Through strong social networks and established social norms, the community feels confident that the LPD will carry out its duties fairly, transparently and in accordance with the common interest. This trust is the foundation for LPD in various LPD activities, including village deliberations, financial management, or implementing development programs that will help solve problems in the village economy. Social capital provides a strong foundation for the empowerment of LPDs in Bali by building broad social relationships, supporting participation in decision-making, and facilitating access to resources. This allows LPDs to become effective and responsive institutions to the needs and aspirations of village communities. Therefore, managing and utilizing social capital wisely is very important for LPDs to achieve sustainable development goals at the village level. These results are supported by research conducted by Ambara (2019), Saskara et al. (2020), and Sudibia et al. (2016), showing that Social Capital has a positive and significant relationship to empowerment.

The results of the analysis show that local wisdom has a positive and significant influence on performance. This demonstrates that the LPD's performance can improve the more local wisdom is used when running the LPD. Local wisdom can be understood as knowledge found in ethnic groups' traditional cultures. Every ethnic group has its own set of local wisdom values, which might originate from their own traditional culture, be adopted from outside sources (such as religious teachings), or result from outside cultures being adapted to local customs (Sedyawati, 2006). The research results show that the concept of Local Wisdom is closely related to performance, where this concept is the basis for every operational activity carried out within the LPD environment in Gianyar Regency. Local wisdom is one of the motivations or even enthusiasm for improving performance, and one example is compensation for religious ceremonies at temples (Suparsabawa & Sanica, 2020). The local wisdom applied in an LPD office varies according to the situation and conditions in the environment; this is in line with an in-depth interview with Mrs. Ketut Artini on January 29 2024.

“The application of local wisdom in Village Credit Institutions (LPD) in relation to improving performance is deemed very necessary, and local wisdom is used as the basis for ongoing operational activities. LPD has been around for a long time, and we are trying to run it in accordance with the existing awig-waig. “During the trip, one of our examples is that LPD managers routinely donate financial funds to Pura Dalem; apart from that, we also give them in the form of goods.” (29/01/2024).

This opinion explains that LPD uses local wisdom as its basis in carrying out its operational activities, and the management considers the application of local wisdom very necessary. LPD routinely provides punia funds to temples in its area. Apart from that, LPD can also organize traditional ceremonies such as prayers, cremation ceremonies, or other ceremonies that are an important part of Balinese people's lives. The application of Balinese local wisdom to the LPD is not only to maintain traditions but also to strengthen and develop the role of the LPD as a center for community activities based on rich and sustainable local wisdom values. These results are in line with several studies conducted previously by Gaya & Fernandez (2022), Devi et al. (2018), Suparsabawa & Sanica (2020), and Wedantara & Adi (2019).

The analysis's findings indicate that while technology does affect performance, it does so in a favorable way. These results indicate that the direct use of technology has not been able to strengthen the performance of LPD in Gianyar Regency. This is due to differences in the use of technology in carrying out operational activities in each LPD. Village Credit Institutions (LPD) spread across Gianyar Regency still do not fully utilize technology to carry out their duties. This was confirmed by Mr Wayan Suarta, who stated that:

“The use of technology has indeed been used in LPD, but for some operational activities we still use manual methods. For example, when people save, the savings book is still written manually. “The use of technology is always used in operational activities, but if there are technological problems or problems, the LPD can still work even though it is not optimal.” (17/01/2024).

This opinion means that the use of technology in LPDs is still not used optimally by LPDs, there are still some LPDs that use manual methods to operate their tasks. The existence of obstacles that may occur in operations related to the use of technology does not appear to be an obstacle for the LPD to be able to carry out its duties. Even though the use of technology is said to provide convenience, clarity and understanding, increasing effectiveness and productivity is still not able to improve the performance of the Gianyar Regency LPD. Research conducted by Andika and Sumadi (2021) states that this can happen because many LPD employees are over 50 years old, and in the application of technology, there are still those who are less able to utilize currently developing technology, so they have not been able to improve the performance of the LPD. The results of this research are in line with research conducted by Dewi & Sudiana (2020), Wijaya (2022), and Jin (2003), which stated that the use of technology does not support an influence on performance.

The analysis results show that transaction cost efficiency has a positive and significant influence on performance. These results show that the more efficient transaction costs are, the better LPD performance will be; efficient transaction costs can improve the performance of an institution. Transaction cost efficiency helps LPDs reduce their overall operational costs. This can include indicators used such as negotiation costs, costs of checking the customer's ability to pay and economy, costs of searching for information regarding customer eligibility, and other costs related to the LPD's daily operations. By reducing transaction costs, LPDs can have more resources available to allocate to other operational activities, which can help them manage their institutions more effectively. Overall, transaction cost efficiency can contribute to improving LPD performance, including revenue growth, increased net profit, and other operations. In line with this, the research results of Yuliarmi and Marhaeni (2020) state that if the transaction costs incurred by a company are high, then it does not reflect an efficient business, but if transaction costs can be kept as low as possible, then business activities can be said to be running efficiently. The results of this research are in line with several studies conducted by Atmaja et al. (2020), Ivandra (2022), Fidiyawati (2021) and Prayoga et al. (2022), which stated that transaction cost efficiency has a positive and significant effect on performance. According to Kharisma (2020), an efficient organization can reduce transaction costs as low as possible due to industry/company inefficiencies caused by high transaction costs.

The results of the analysis show that social capital has a positive and significant influence on performance. This shows that the higher the Social Capital, the higher the performance. The presence of social capital creates social ties and a feeling of ownership towards the Pakraman village, allowing residents to be involved in the selection of LPD administrators through traditional processes in the customary *paruman*. Participation patterns in the selection of LPD administrators and staff influence the formation of the LPD network in each region. This network makes it easier to identify LPD customers in each region. Social capital, such as trust between LPD and residents, encourages LPD to provide credit without collateral to residents with certain conditions. Social capital also plays an important role in resolving problem loans, implementing customary sanctions, avoiding public displeasure due to arrears in LPD, and supporting community compliance with transaction obligations. A similar opinion was expressed by Mr Agung Dian, who stated:

“We apply a form of trust in the LPD itself to provide collateral loans with certain considerations, and the LPD must build a sense of trust so that there will be a synergy of good relations between the LPD and the surrounding community. “By also taking into account the *awig-awig* implemented in Pakraman village, it is hoped that the LPD can grow and help the village community's economy” (19/01/23).

This means the LPD applies social capital by building trust with the community. This community trust will be a motivator for village communities to participate in activities carried out by the LPD by referring to existing norms in their area. This will form a network for LPDs which it is hoped will be able to support improving the performance of LPDs and can also help solve economic problems in the communities in their areas. These results are in accordance with research conducted by Utomo (2019), Ghifary (2017), Pardiman (2018), and Chamanifard et al. (2015), showing that Social Capital has a positive and significant relationship with performance. Trust, as a factor of social capital, plays a role as a basis for participation and access between transaction actors.

The results of the analysis show that empowerment has a positive and significant influence on performance. This shows that empowerment is able to have a significant influence on performance. One way that can be done to improve LPD performance is by carrying out empowerment activities. Making LPDs more empowered will affect LPD performance as a whole; the access and control given to LPDs to make decisions and act independently will improve performance. This is because LPD will be more responsive and speed up the decision-making process in carrying out tasks, so operational activities will become more effective and efficient, and LPD can continue to grow. Triatmanto et al. (2010) in their research stated that empowerment has a positive and significant effect; empowerment can improve performance, and empowerment is one of the determining factors of performance, so it can be said that empowerment has an important role in improving organizational performance. In line with this research, Andika and Darmanto (2020) stated that empowerment has a positive and significant effect on performance. This is based on whether individuals or groups are more empowered in terms of knowledge and skills at work, and their authority at work will be further enhanced. They will have a more optimal role in carrying out tasks so that the results obtained will also be better. These results support the research of Nursyamsi (2012), Anuraga et al. (2017), and Andrea (2007) showing that empowerment has a positive effect on performance, which shows that empowerment has a positive and significant effect on performance.

The results of the analysis show that local wisdom has a positive and significant influence on performance through empowerment. Local wisdom can indirectly strengthen the performance of LPDs by empowering them in the Gianyar Regency. LPDs that are more empowered to operate by utilizing local wisdom will be able to build strong partnerships with other local institutions, such as traditional institutions, community groups, or local non-government organizations. Such partnerships can increase LPDs' access to additional resources, local knowledge, and social support, which are needed to

increase their empowerment and improve their performance. Local wisdom often includes traditional activities in managing natural resources and the environment. By utilizing and preserving these activities, LPD can help village communities manage local resources sustainably, thereby providing long-term benefits for future generations. The results of research conducted by Suparsabawa and Sanica (2020) stated that local wisdom provides improved performance both sustainably in terms of operations and finances of the Tanjung Benoa Traditional Village LPD. Local wisdom or policies that are rooted in the culture and traditions of local communities play an important role in LPD performance through empowerment.

The results of the analysis show that the use of technology has a positive and significant influence on performance through empowerment. The use of technology can indirectly strengthen the performance of LPDs through empowering LPDs in the Gianyar Regency. The use of technology can make a significant contribution to improving LPD performance through empowerment; technology allows LPD to access relevant and up-to-date information quickly and easily. This allows LPD to make better decisions based on accurate data and analysis. The use of technology such as digital banking applications or software can increase the productivity and operational efficiency of LPDs. This allows LPD to manage member data, financial transactions and credit more quickly and accurately. In this way, the empowerment process can be carried out more effectively and responsively so that it will improve LPD performance and make LPD grow further. These results are in line with research by Andrawati et al. (2018). Rahmiyati et al. (2015), which states that technology has a positive and significant effect, LPD operational activities supported by technology enable LPDs to carry out better monitoring and evaluation of the empowerment programs they run. . Data collected through technology can be used to evaluate program impact, identify areas where improvements are needed, and make more evidence-based decisions to increase empowerment effectiveness. Thus, the use of technology can be a powerful tool in improving LPD performance through empowerment.

The results of the analysis show that transaction cost efficiency has a positive and significant influence on performance through empowerment. Transaction cost efficiency can indirectly improve LPD performance through LPD empowerment in Gianyar Regency. Efficient transaction costs carried out by LPDs will also increase their operational efficiency. Low transaction costs mean that fewer resources will be used to complete existing transactions, thereby increasing the performance of the LPD itself. Overall, reducing transaction costs through empowerment can contribute to improving LPD performance. Transaction cost efficiency is very important in improving LPD performance because it can help optimize resource use, increase program effectiveness, strengthen community participation, increase openness and accountability, increase administrative efficiency, and speed up the decision-making process in LPD. The results of this research are supported by Prayoga (2022) and Kharisma (2020), who state that an institution is efficient if it can reduce transaction costs as low as possible due to industry/company inefficiencies caused by high transaction costs. The more efficient transaction costs are, the more empowered an institution will be, thereby improving its performance.

The results of the analysis show that social capital has a positive and significant influence on performance through empowerment. The use of social capital can indirectly strengthen the performance of LPDs through empowering LPDs in Gianyar Regency. The existence of social capital in the form of a network between administrators and traditional officials is able to facilitate the planning process together. In the LPD personnel recruitment process, the sense of togetherness and sense of belonging to the Pakraman village facilitates residents to vote in the process. In the LPD credit distribution process, the existence of social capital in the form of trust makes the LPD dare to provide credit without collateral to residents with certain limits. In this process, the network between LPD administrators and traditional apparatus plays a role in recognizing and controlling customers. The process of resolving bad credit, applying customary sanctions and residents' habits to avoid embarrassment to the public if they are found to be in arrears at the LPD facilitates residents' compliance with transaction obligations. Fifth, in the process of monitoring and accountability of the LPD, the network between administrators and traditional officials facilitates the distribution of information on LPD developments to the community. The results of this research are in line with research conducted by Juniarti (2023), which states that social capital indirectly influences empowerment to improve performance. Developing social capital supports the management of the village LPD, and social capital supports the LPD in being more empowered so that it can improve the performance of the LPD.

IV. CONCLUSION

Based on the discussion, this research will produce the following conclusions. Local Wisdom, Technology, Transaction Cost Efficiency, and Social Capital have a positive and significant influence on the Empowerment of Village Credit Institutions in Gianyar Regency. Local Wisdom, Transaction Cost Efficiency, Social Capital, and Empowerment have a positive and significant effect on performance. Meanwhile, technology has a positive but not significant effect on the performance of Village Credit Institutions in Gianyar Regency. Local Wisdom, Technology, Transaction Cost Efficiency, and Social Capital indirectly have a positive and significant effect on performance through the Empowerment of Village Credit Institutions in Gianyar Regency.

LPD has shown a desire to advance the economy of its region with various innovations; LPD, as a financial institution managed by traditional villages, is to maintain community trust by showing a professional attitude that upholds the cultural values that exist in the village. The government's role in this case needs to be to continuously empower LPDs by providing training for LPD operational activities to increase LPD empowerment, which will improve the performance of LPDs themselves.

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