The *Lembaga Perkreditan Desa* (LPD) is a village financial institution that is owned by the *Desa Adat* (customary village), which is formed by social bonds and governed by customary regulations. The customary village is both the area of operation and social place of the LPD. The integration of the LPD in customary life and law has been a powerful framework for developing intimate customer relations and managing risks.

As non-bank financial institutions LPDs are regulated by the Government of Bali and supervised by the Regional Development Bank of Bali. Other pillars of the LPD system are the LPD Association, the LPD Development and Training Institute, and district-level LPD Boards that support the Regional Development Bank in its supervision and technical assistance functions.

LPDs have been established on the initiative of the Government of Bali since 1985. At present there are 1,356 LPDs that operate in 94% of the Balinese customary villages. With 1.2 million savings deposit accounts and 365,000 loan accounts they provide financial services to most of the 834,000 Balinese households. On average almost every other family (44%) has a loan from an LPD; and every family holds 1.4 savings deposit accounts. Savings and time deposits contribute 80% to the total assets of the LPD industry (USD 261.5 million). *(June 2008)* With this high outreach and effective financial intermediation the LPD industry has become an indispensable part of the financial system in Bali and plays an important role in local economic development.

The successful development of the LPD industry has been mainly due to two factors: the integration of LPD into the Balinese custom village and the high commitment of the Government of Bali, which adopted a long-term strategy in developing a system of village financial institutions, which includes an enabling regulatory and effective supervisory framework as well as a training and technical support infrastructure necessary for the self-reliant and sustainable development of village financial institutions.