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Synergy Modeling of Microfinance Institutions in Bali's Pekraman Villages

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ABSTRACT: Microfinance institutions (MFIs) play a strategic role in supporting grassroots economic development, yet increasing competition in the financial services sector and restrictive credit regulations have placed significant pressure on their sustainability. In Bali the Lembaga Perkreditan Desa (LPD) has historically demonstrated effectiveness in fostering development within traditional villages, but currently faces challenges similar to other MFIs. This study examines how institutional synergy can serve as a solution to overcome competitive constraints, with the main research question focusing on how a standardized synergy model among MFIs can be developed and implemented to strengthen LPD sustainability. The study employs a qualitative case-based modeling approach, drawing on supporting theoretical frameworks, in-depth interviews with the LPD of Kedonganan Traditional Village, and the researcher's analytical interpretation. The data were synthesized to develop a practical synergy model grounded in interview evidence and document review, with interpretive steps made explicit through coding procedures and triangulation. The findings indicate that structured synergy among MFIs can reduce competitive friction, enhance institutional resilience, and expand development-oriented financial services. The proposed model demonstrates practical feasibility and adaptability for broader implementation across LPDs in Bali. This research concludes that institutional synergy represents a viable strategy for strengthening LPDs as microfinance institutions and accelerating sustainable economic development in Bali Province. The main implication is that collaborative rather than competitive institutional frameworks can enhance the long-term effectiveness of community-based financial institutions.

Keywords: Microfinance institutions; Synergy; Sustainable economic development; Pekraman Villages.

INTRODUCTION

While the crucial role of Microfinance Institutions (MFIs) in mitigating financial exclusion in rural areas is widely recognized, the current literature still leaves a significant gap in understanding the mechanisms for sustainable integration between MFIs. Existing cooperative or conventional banking financial models tend to be siloed and fail to address the challenges of structural

inefficiencies and limited reach at the community level. This study addresses this gap by proposing a synergy framework based on local governance and partnerships, which goes beyond traditional microfinance approaches. By identifying the boundary conditions necessary for successful collaboration, this paper demonstrates that synergy is not simply a matter of resource consolidation, but rather an adaptive model that can transform MFIs' operational effectiveness in responding to complex regional economic dynamics.

The existence of any financial institution, in any form, is strongly influenced by its financial performance. While the vital role of Microfinance Institutions (MFIs) in regional development has been recognized, empirical evidence indicates that many institutions still operate below optimal levels due to limited capital structures and operational fragmentation (Pratama & Wiguna, 2023). Recent literature consistently emphasizes that financial health is highly dependent on capital adequacy as a risk buffer, but there is an unresolved research gap regarding how MFIs can address these capital limitations through collaborative synergy mechanisms (Sari et al., 2024). Previous studies tend to focus on independent internal efficiency, without considering inter-institutional integration models that can consolidate resources without losing local governance identity (Setiawan & Suryani, 2020). Therefore, this research aims to fill this gap by exploring a strategic partnership framework as a solution to the performance and capital deficits that have hampered the scalability of MFIs at the regional level.

Financial performance is strongly supported by capital. Capital management and distribution are key to success for financial institutions in improving their financial performance (Wirasedana & others, 2024).

Bali has an MFI that has been established since 1984. This financial institution, known as the Village Credit Institution (LPD), has played a significant role in the development of Bali Province, particularly at the traditional village or *pekraman* village level. LPD ownership in almost every *pekraman* village has significantly impacted the welfare of the Balinese people.

Table 1. Data on the Number of Villages and LPDs in Bali Province in 2024

No	Regency / City	Village / Sub-district	Number of Traditional Villages	Number of LPD	Active LPD Ratio
1	Jembrana	51	64	64	100.00%
2	Buleleng	148	170	169	99.41%
3	Tabanan	133	349	311	89.11%
4	Badung	62	124	122	98.39%
5	Gianyar	70	273	270	98.90%
6	Bangli	72	170	159	93.53%
7	Klungkung	59	125	119	95.20%
8	Karangasem	78	190	190	100.00%
9	Denpasar	43	35	35	100.00%
Total		**716**	**1500**	**1439**	**95.93%**

The high ratio of active LPDs indicates broad institutional presence, which may support local microeconomic activities (Setyawan & Suryani, 2020). In practice, however, LPDs have yet to consistently demonstrate their role as drivers of the microeconomy. Sudiana (2010) noted that internal governance challenges in many LPDs significantly affect their financial performance and institutional sustainability. Although LPDs are often regarded as pillars of the local microeconomy, empirical evidence regarding their direct impact on microeconomic outcomes remains mixed. To

date, the effectiveness of LPDs in improving local economic welfare is frequently constrained by limited access to inclusive credit and disparities in the reach of MSME financing (Wibawa & Sujana, 2021; Yuliastuti & others, 2023). This condition suggests that the level of LPD activity is not always directly proportional to increases in household income or growth in the microenterprise sector, but instead depends heavily on the efficiency of credit distribution and internal risk management (Purnami, 2022).

The financial performance of LPDs in Bali varies across villages. This performance, commonly measured by profitability, tends to fluctuate over time. A general overview of LPD profitability in Bali is presented in Table 2 below.

Table 2. LPD Financial Performance in Bali

Year	Assets		Profit		ROA (%)
	Value (Rp.)	Growth (%)	Value (Rp.)	Growth (%)	
2017	18,471,939,278		564,187,730		3.05
2018	21,751,659,269	17.76	591,764,672	4.89	2.72
2019	24,326,262,046	11.84	635,814,014	7.44	2.61
2020	23,602,665,135	-2.97	398,637,027	-37.30	1.69
2021	23,210,734,201	-1.66	300,317,573	-24.66	1.29
2022	26,644,936,206	14.80	568,834,596	89.41	2.13
2023	33,587,254,125	26.05	651,576,251	14.55	1.94
2024	40,418,740,054	20.34	919,176,251	41.07	2.27
Average	26,501,773,789	12.31	578,788,514	13.63	2.22

Source: Bali Province LPLPD, 2025

The data in Table 2 show fluctuating Return on Assets (ROA). The highest ROA, used as a proxy for LPD profitability, occurred in 2017, reaching 3.05 percent. An interesting observation is that in 2024, despite significantly higher asset and profit values than in 2017, the ROA achieved was only 2.27 percent. This situation indicates a decline in the ability of LPDs in Bali to generate profits.

Suboptimal financial performance in MFIs is generally associated with capital-related issues (Wirasedana & others, 2024). MFI performance results from a complex interaction of various determinants, including credit portfolio quality, risk management, governance, and operational efficiency (Armendáriz & Morduch, 2010). While factors such as competitive pressures and regulatory compliance also play a role, this study specifically highlights capital stagnation as a crucial causal pathway. In the context of LPDs in Bali, limited capital structures and suboptimal capital allocation are often key constraints that hinder institutional capacity to expand service reach and absorb credit risk (Atmadja et al., 2018; Wirasedana & others, 2024).

Profitability stagnation in MFIs, driven by inefficient capital distribution, cannot be resolved through a single financial intervention. Contrary to the conventional view, Yang & Wang (2025) argue that capital constraints often reflect an organization's inability to manage its resource ecosystem. In this context, the Resource-Based View (RBV) serves as a theoretical foundation for viewing synergy not merely as capital accumulation, but as a strategy for integrating unique assets across MFIs, such as customer data and non-substitutable risk management expertise. Meanwhile, Stakeholder Theory provides a framework to ensure that capital distribution aligns with the interests of local communities as the ultimate beneficiaries. By integrating these two perspectives,

the proposed synergy model shifts from a purely efficiency-oriented tool into a strategic mechanism that transforms MFI resource constraints into collaborative competitive advantages.

Capital-related challenges are not solely due to insufficient capital to meet customer credit demand. Yang & Wang (2025) identify an alternative condition, namely excessive capital stagnation. This is reflected in the accumulation of substantial assets that do not translate into proportional profit generation, resulting in low profitability.

Yi & others (2025) further indicates that capital stagnation in MFIs is largely driven by weak capital distribution in the form of customer credit. One proposed solution is the expansion of business networks. Expanding these networks through institutional synergy allows for more effective credit distribution to customers. In this regard, MFIs play a crucial role as the spearhead of sustainable economic development in micro-regions.

The expansion of credit distribution requires the development of networks among financial institutions both within and across regions. Research by Venzke et al. (2025), involving 557 banks in 27 countries, demonstrates that interbank collaboration through shared distribution channels enhances credit allocation efficiency. In this mechanism, a bank can channel credit through partner institutions, thereby maximizing distribution capacity. Such interbank connectivity has been shown to improve the financial performance of participating institutions. Rahman (2025) further emphasizes that cross-regional financial cooperation requires integrated policy frameworks within formal agreements. In this context, government intervention is necessary to maintain liquidity stability and ensure the effectiveness of collaboration.

Previous studies suggest that the profitability of LPDs in Bali Province can be improved through collaboration with other microfinance institutions (Hidayat & Setiawan, 2022). Law Number 1 of 2013 concerning Microfinance Institutions and Law Number 21 of 2011 concerning the Financial Services Authority provide a regulatory foundation that supports inter-institutional collaboration, particularly for maintaining financial system stability. However, empirical observations indicate that LPDs still tend to operate independently despite increasing competition in the financial sector. This mismatch between regulatory opportunities and actual practice has led to the need for a structured synergy model among MFIs.

LPDs, as financial institutions embedded within traditional villages, play a strategic role in sustaining local economic systems. However, their financial performance remains suboptimal. Considering the critical function of MFIs in supporting sustainable economic development, the limited performance of LPDs poses a significant challenge to achieving long-term economic resilience at the village level (Suarmanayasa & Ariasih, 2024).

Literature Review

Stakeholder Theory

Stakeholder Theory was first introduced in 1963 through an internal memorandum at the Stanford Research Institute. The theory posits that various stakeholders are essential to an organization's sustainability, and without their support, the organization cannot operate effectively. Stakeholders include shareholders, managers, employees, customers, suppliers, creditors, regulators, and the

broader community, all of whom have both economic and social interests in the organization. The relationship between an entity and its stakeholders is fundamental to value creation, as long-term organizational success depends on fulfilling stakeholder expectations (Wirasedana et al., 2024).

Earlier perspectives, such as those proposed by Friedman (1970), emphasized profit maximization as the primary responsibility of businesses. However, contemporary socio-economic conditions highlight that stakeholder considerations are equally critical for long-term sustainability. While profit remains important, various external and internal factors influence value creation and organizational continuity (Freudenreich et al., 2020).

Stakeholder Theory asserts that organizations are bound by implicit and explicit contracts with both internal and external stakeholders. Engagement with external stakeholders is particularly important for ensuring that products and services are accepted in the market (Chen et al., 2024). In the context of MFIs, stakeholder collaboration becomes essential for business development and sustainability (Ngo & others, 2024). The ability of stakeholders to form strategic partnerships contributes significantly to organizational resilience (Baharin & others, 2024).

This theory is highly relevant to the present study, as LPDs involve multiple stakeholders with diverse objectives beyond profit generation. The synergy model proposed in this research inherently requires stakeholder integration, making this theoretical framework essential for explaining the alignment of interests within the data.

Resource-Based View

The Resource-Based View (RBV), introduced by Barney (1991), focuses on the strategic resources possessed by organizations. RBV provides a framework for analyzing how unique resources can be leveraged to achieve sustainable competitive advantage. It integrates internal organizational analysis with external environmental considerations, emphasizing capabilities as intangible assets that are often rare and difficult to replicate.

In modern organizations, key resources extend beyond financial capital to include social and intellectual capital (Wirasedana et al., 2024). Nevertheless, financial capital remains particularly critical in the financial services sector, where effective capital management directly influences value creation (Baker & Wurgler, 2015). RBV assumes that each organization possesses a unique combination of resources and capabilities that form the basis of its strategy and profitability (Husnah et al., 2025).

The application of RBV in this study emphasizes the importance of integrating financial, social, and cultural resources. When these resources are effectively synergized, even small institutions can achieve sustainable growth (Charisma et al., 2025). This study extends the traditional RBV framework into a Collaborative Resource Optimization (CRO) model, where idle capital is reinterpreted as a dynamic resource that can be activated through inter-institutional collaboration.

The novelty of this approach lies in the concept of Dynamic Capacity Redistribution, where competitive advantage is derived not from exclusive resource ownership but from the collective ability to mobilize resources across institutional boundaries. Thus, in the microfinance ecosystem,

the key resource is not merely financial capital itself, but the mechanisms that enable flexible capital distribution in response to regional credit demand fluctuations (Li & others, 2025).

Partnership Strategy

The concept of Partnership Strategy, introduced by Anderson & Narus (1990), emphasizes the importance of collaboration in achieving greater efficiency, reducing development time, and lowering operational costs. In the financial services sector, partnership strategies serve several objectives, including reducing competitive pressure, overcoming resource limitations, building synergy, enhancing competitiveness, and improving institutional performance (Supriatna & others, 2022).

Partnership strategies play a vital role in economic development by fostering cooperation among economic actors (Dirie & others, 2023). Effective partnerships can also improve financing efficiency, which is critical for financial institutions aiming to achieve sustainable performance (Zan & others, 2025). Consequently, collaboration within the financial services industry must be structured to ensure mutual benefits among participating institutions (Lwesya, 2025).

This concept is particularly relevant to the present study, as it provides the foundation for developing a synergy model among LPDs and other MFIs. Unlike conventional collaboration models, the proposed framework introduces a community-based resource integration approach. This model operationalizes RBV principles by combining non-financial assets such as local knowledge and social capital, while also addressing structural inefficiencies such as operational silos (Pratama & Wiguna, 2023).

By incorporating stakeholder interests and gradual intervention mechanisms, the proposed synergy model offers greater resilience to regional economic shocks compared to traditional frameworks. Therefore, this model is expected to effectively achieve the objectives of the Partnership Strategy concept while contributing to sustainable microeconomic development.

Table 3. Comparative Analysis of Collaborative Frameworks

Comparison Dimension	Correspondent Banking / Consolidation	Traditional Cooperative Partnership	Proposed MFI Synergy Model
Primary Objective	Cost efficiency & formal market expansion	Internal member need fulfillment	**Regional resilience & communal capital optimization**
Resource Mechanism	Liquidity transfer between institutions	Resource sharing restricted to members	**Integration of unique assets (local data) & cross- subsidization**
Governance Basis	Rigid hierarchy & central regulatory compliance	Member democracy (one person, one vote)	**Adaptive local partnership based on boundary conditions**
Limitations Addressed	High overhead & rigid collateral requirements	Low scalability & vulnerability to local shocks	**Operational silos & inefficient capital distribution**

The table above presents a comprehensive comparison between the proposed synergy model and existing collaboration frameworks, highlighting the novelty and operational strength of this research. Unlike the hierarchical and regulation-intensive correspondent banking model, or traditional cooperative partnerships that are often limited in scale and vulnerable to local shocks, the MFI synergy model offers a more adaptive approach through the integration of unique assets and cross-capital redistribution. By addressing inefficiencies in capital distribution and breaking down operational silos, this framework demonstrates that synergy is not merely a mechanism for financial consolidation, but rather a governance strategy that is responsive to specific regional development needs.

METHOD

This study adopts a qualitative research approach aimed at achieving a deeper understanding of social and institutional dynamics rather than merely describing observable phenomena (Murdiyanto, 2020). Qualitative research is typically conducted in natural settings, focusing on contextual realities without manipulating variables, as is common in quantitative approaches. This approach enables an in-depth exploration of the research object through purposive and evolving (snowball) data collection strategies to meet the informational needs of the study.

The data sources consist of both primary and secondary data. Primary data were obtained through interviews with the Head of the LPD and its administrators. These interview data were subsequently processed using NVivo 12 software. Secondary data include information on the number of LPDs and their financial performance in Bali.

This study employs a qualitative case study design focusing on the Kedonganan LPD. Primary data were collected through in-depth interviews with five key informants selected using purposive sampling, based on their decision-making authority and direct involvement in the initiation of synergy practices. The informants include the LPD Chairperson, supervisory board members, and representatives of the traditional village.

A semi-structured interview protocol was applied, with each session lasting approximately 60–90 minutes. The interviews covered key topics such as capital allocation mechanisms, governance constraints, and stakeholder integration. The collected data were analyzed using NVivo through a systematic coding process, including open coding to identify initial concepts, axial coding to establish relationships between categories, and selective coding to generate core themes that underpin the proposed synergy model.

To ensure data credibility and trustworthiness, this study employed a source triangulation strategy by cross-validating interview findings with LPD annual financial reports and internal regulatory documents. In addition, a member checking procedure was conducted to ensure that the researcher's interpretations accurately reflected the perspectives of the informants.

RESULT AND DISCUSSION

Background of Synergy

The Village Credit Institution (LPD) of Kedonganan Traditional Village shares similar characteristics with other LPDs in Bali. The primary objective of this institution is to support the community in improving its quality of life, both socially and economically. Over time, economic development and the expansion of business activities have encouraged the establishment of various enterprises within the village. Previously known primarily as a fishing village, Kedonganan has experienced rapid transformation, with diverse business sectors now emerging. This development has consequently increased the demand for capital among community members seeking to expand their businesses.

Initially, the community's capital needs were predominantly fulfilled by the LPD. However, with the entry of various financial service providers into the traditional village, many community members have increasingly sought financing from alternative institutions. The main competitors of the LPD include cooperatives, both local and from other regions, as well as conventional financial institutions such as rural banks and commercial banks. This competitive environment has led to capital stagnation within the LPD, despite the growing economic potential at the village level.

This condition reflects a paradox in which capital remains underutilized amid expanding economic opportunities. Based on financial report analysis and interview findings, increased competitive intensity appears to correlate with underutilized lending capacity. This stagnation is indicated by a declining Loan-to-Asset Ratio (LAR) and the accumulation of idle funds that are not channeled into productive sectors, suggesting inefficiencies in capital optimization despite strong demand for local business financing.

The idea of synergy, initiated independently by LPD management, has been positively received by both the community and other microfinance institutions within the village. In particular, local cooperatives have welcomed this initiative as a collaborative strategy to enhance competitiveness against conventional banking institutions. Community members perceive this initiative as an innovative and strategic effort to improve the LPD's profitability and expand its economic role.

The emergence of this synergy initiative can be explained through Stakeholder Theory. Key stakeholders, including the LPD supervisory board and management, act as conceptualizers and initiators of strategies aimed at ensuring institutional sustainability. Internally, this involves strengthening operational performance, while externally, it contributes to economic development within the Kedonganan Traditional Village. The findings demonstrate that stakeholder-driven initiatives play a critical role in shaping adaptive institutional strategies.

Synergy Process

The implementation of synergy between LPDs and cooperatives follows several structured stages. The process begins with discussions aimed at establishing a shared understanding of the collaboration objectives. This is followed by the formulation of cooperation mechanisms that define the operational structure of the partnership. Subsequently, financial reports are submitted

to the receiving institution as part of the evaluation process. Finally, the collaboration is formalized through the signing of a Cooperation Agreement, which regulates fund placement in the form of savings or linkage credit.

The success of this synergy process can be explained using the Resource-Based View. Both LPDs and cooperatives possess complementary resources that enable mutual support. LPDs generally have relatively strong capital resources but limited credit outreach, while cooperatives have broader lending reach but relatively limited financial capital. This complementarity creates a strategic opportunity for resource integration.

Empirical findings indicate that synergy between LPDs and cooperatives can overcome profitability stagnation by optimizing idle capital and expanding credit distribution (Pratama & Wiguna, 2023). This aligns with the perspective that collaboration in the microfinance sector is not merely about pooling assets, but about addressing capability gaps between institutions to enhance regional economic resilience (Sari et al., 2024).

Operationally, the synergy model is implemented through four main stages. The first stage involves initiation and vision alignment between institutional leaders to establish shared strategic objectives. The second stage focuses on designing cooperation mechanisms, particularly governance rules based on fund absorption capacity. The third stage involves due diligence, including the evaluation of audited financial statements to assess risk feasibility. The final stage is legal formalization through a Cooperation Agreement that governs fund placement and operational responsibilities.

The effectiveness of this model is reflected in improvements in cost of funds efficiency, growth in credit distribution, and adherence to jointly agreed monitoring mechanisms.

Synergy Modeling

The synergy initiative developed by the Kedonganan LPD provides a valuable reference for other LPDs in Bali. Given the generally modest profitability performance across LPDs, innovation in institutional strategy is essential. The novelty of this model lies not in the concept of partnership itself, but in the transformation of capital allocation mechanisms and cross-institutional governance structures.

Unlike conventional partnerships that are often transactional and reactive, this model introduces a Symbiotic Monitoring Procedure, where credit and liquidity risks are managed collectively rather than within institutional silos. This approach integrates stakeholder roles based on trust and shared accountability within the community context.

This innovation shifts the focus of microfinance practices from cost efficiency toward the optimization of collective capacity. As a result, LPDs are better positioned to respond to regional economic dynamics while maintaining their local identity and autonomy. The model also contributes theoretically by emphasizing the importance of aligning incentives between capital owners and institutional managers, supported by adaptive yet structured governance mechanisms.

Empirical evidence from the Kedonganan LPD shows that the implementation of this synergy model has contributed to improved profitability. Although LPDs face various internal and external

challenges, these issues ultimately converge on a common constraint, namely limited capacity to generate optimal returns. The Kedonganan experience demonstrates that strategic collaboration can serve as a viable solution to this challenge.

This synergy model is further illustrated in the flowchart presented below.

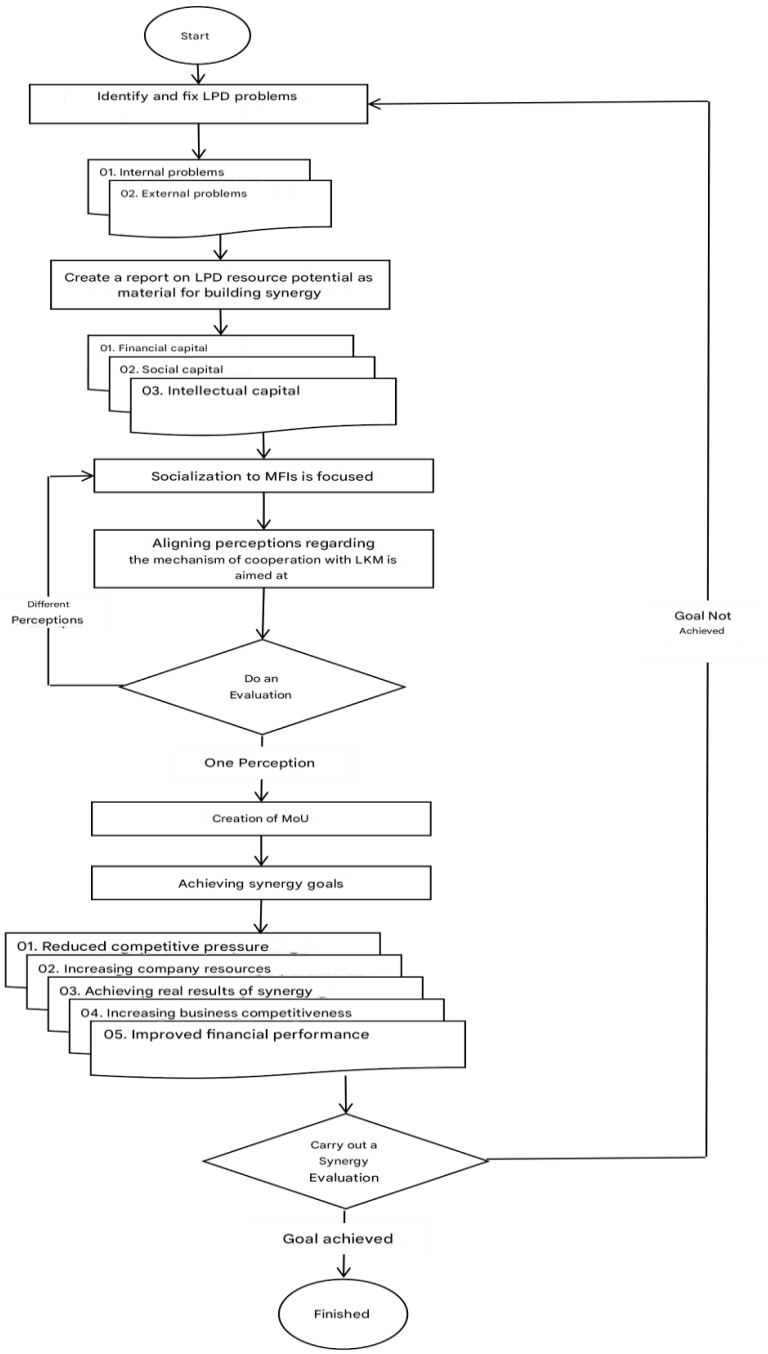

Figure 1. Modeling MFI Synergy

Synergy between MFIs plays a crucial role in strengthening the people's economy. An MSME-based economic structure requires sustainable capital support from various financial institutions. The development of MFIs generates multiple benefits, as the profits obtained are not only reinvested for institutional growth but also contribute to broader community welfare. LPDs, as community-based financial institutions, have a strategic role in supporting sustainable

development. Strengthening sustainability at the level of traditional villages (*desa pekraman*) is particularly important, considering that these villages form a substantial portion of sub-district structures in Bali. Enhancing the financial performance of LPDs will therefore produce systemic impacts on regional economic development.

The systemic impact of strengthening LPDs extends beyond individual institutions and can serve as a scalable regional policy blueprint. Although this study focuses on the Kedonganan LPD as a best practice, the theoretical robustness of the model lies in its adaptability to other rural financial ecosystems with similar socio-cultural characteristics. By integrating community-based financial performance indicators with customary governance structures, this model provides a sustainable policy pathway for addressing inter-regional financial disparities in Bali. Consequently, successful implementation requires adaptive policy support that allows flexibility rather than imposing rigid operational standardization, enabling each LPD to develop synergy based on its unique social capital and local capacity.

The implementation of synergy within the Kedonganan LPD empirically demonstrates that transitioning from a transactional partnership model to an integrated symbiotic governance model can significantly improve profitability that was previously constrained by structural inefficiencies and capital limitations (Pratama & Wiguna, 2023). These findings reinforce the argument that the success of microfinance at the regional level depends on the institution's ability to transform social capital into a collective risk mitigation mechanism that transcends institutional boundaries (Sari et al., 2024).

Operationally, this synergy model is implemented through four systematic stages. The first stage is vision initiation, led by institutional leadership to align strategic objectives through an initial memorandum of understanding. The second stage involves the design of cooperation mechanisms, where governance structures are formulated to ensure the preservation of local autonomy. The third stage is due diligence, which includes the evaluation of audited financial statements to assess liquidity risk and institutional feasibility. The final stage is operational formalization, conducted through a Cooperation Agreement (PKS) that regulates fund placement and implements symbiotic monitoring procedures. The success of this model is measured through key performance indicators, including improvements in Return on Assets (ROA), reductions in idle capital ratios, and adherence to jointly agreed fund allocation protocols.

Boundary Conditions and Operational Prerequisites

The successful implementation of this synergy model depends on specific boundary conditions that ensure institutional readiness. A fundamental prerequisite is the stability of financial health within participating LPDs, particularly in terms of capital adequacy and liquidity, to prevent the risk of contagion across institutions. In addition, strong governance capacity and a high level of transparency in financial reporting are essential. Without reliable and verifiable information disclosure, information asymmetry may emerge, undermining trust and limiting the effectiveness of cross-institutional collaboration.

Identifying Potential Systemic Risks

Despite its potential benefits, the synergy model also introduces several inherent risks that must be carefully managed. One major concern is moral hazard, where recipient institutions may lower prudential standards due to perceived access to additional capital. Another critical risk is credit diversion, where allocated funds are used to cover past financial losses rather than to support productive expansion. Furthermore, issues related to accountability and potential conflicts of interest among stakeholders at the village level may distort decision-making processes and weaken the integrity of fund allocation mechanisms.

Mitigation Strategies and Governance Protocols

To address these risks, the model incorporates multi-layered governance mechanisms designed to ensure accountability and transparency at every stage of collaboration. Key mitigation strategies include the implementation of standardized monthly performance reporting and the establishment of transparent audit trails accessible to both internal and external supervisory bodies. From a legal perspective, Cooperation Agreements must include clearly defined exit clauses and dispute resolution mechanisms.

By integrating collective monitoring systems with standardized yet flexible operational procedures, this model evolves into a robust and practical framework. It not only safeguards the autonomy of each participating MFI but also enhances their collective capacity to achieve sustainable competitive advantage within the microfinance ecosystem.

CONCLUSION

The MFI synergy model proposed in this study is developed through the integration of theoretical frameworks, empirical findings from the Kedonganan LPD, and the researcher's analytical interpretation. The pilot implementation at Kedonganan demonstrates that the model has strong potential for transferability. However, its application in other LPDs requires careful consideration of contextual conditions, including internal governance structures, capital adequacy, and readiness for local partnerships.

The model outlines a structured sequence of implementation stages. The initial phase emphasizes institutional preparation, particularly in addressing internal constraints that may hinder collaboration. Effective synergy requires a minimum level of organizational readiness, as severe financial or governance weaknesses can limit successful implementation if not addressed through gradual institutional adjustments. The subsequent stage involves socialization and the establishment of agreements with partner MFIs, followed by an evaluation phase that assesses outcomes in alignment with the principles of partnership strategy.

It is important to note that the model's transferability is not automatic or universal. Instead, it offers analytical rather than statistical generalization, meaning that its applicability depends on the presence of enabling conditions such as stable customary governance, sufficient capital capacity,

and collaborative readiness among local stakeholders. Given the socio-cultural diversity across villages in Bali, this study highlights the importance of contextual adaptation in implementing the model.

To strengthen its empirical validity, further research is recommended through comparative studies across different regions. Such an approach would allow for the identification of key success factors and implementation constraints, thereby refining the model into a more robust and widely applicable strategic framework for LPD development at the provincial level.

Although the model is designed with simplicity to facilitate adoption, its scalability should be understood as context-dependent rather than based on uniform replication. The effectiveness of the model is closely linked to its alignment with the unique characteristics, resource capacities, and partnership dynamics of each LPD. Therefore, the model should be viewed as a flexible governance framework that provides core mechanisms, such as liquidity sharing and risk monitoring, which can be adapted to local conditions.

The inter-MFI synergy model, which positions the LPD as the central stakeholder, offers a practical and adaptable approach for strengthening microfinance institutions in Bali. Its simplicity enables broader adoption while still allowing modifications to suit the specific needs and partnership structures of each institution.

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