



Empowering Rural Bank in the Era of Globalisation : Legal Reforms and Pancasila Values

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Abstract: The inability of rural banks to adapt to the changing global landscape, particularly owing to globalisation, could also have adverse effects on economically disadvantaged populations. This research aims to examine the dynamics of regulating rural banks in Indonesia, the pressing need for legal reforms in rural banks to address the problems posed by globalisation, and the legal reforms for rural banks that are based on the Values of Pancasila. The study methodology employed is the Normative Juridical approach. The research findings suggest that initially, the licencing and activities of the rural bank required permission from the Minister of Finance. However, after the amendment of Law Number 7 of 1992 concerning Banking with Law Number 10 of 1998, the licence for rural banks is now granted by the leadership of Bank Indonesia, as stated in Article 16 paragraph. Globalisation has a significant impact on community life, leading to the emergence of new requirements. One of these requirements is the need for easier transactions, which can be achieved through the digitalisation of banking or the provision of electronic banking facilities. Consequently, legal reforms for banking institutions need to be implemented, taking into account the noble values of the nation as reflected in the moral principles of Pancasila. These values include morality, respect, protection of human rights without discrimination, unity, social justice in the economic and community sectors, and the realisation of people's sovereignty and adherence to the law.

Keywords: Banking Law, Digitalization, G21, Globalisation, JEL, K20 , K23, Legal Reforms, Pancasila, Rural Bank

1. INTRODUCTION

The notion of globalisation has emerged as the one that has received the most attention, particularly in the past ten years (Hossain et al., 2018). There are numerous instances in which the term globalisation is used in a variety of situations across a variety of media and discourses, including political and economic affairs (Hennen & van Est, 2023). The concept of globalisation, often known as globalising, does not inflict any restrictions on its use or clarification.(Subaşat, 2015) In this context, globalisation goes beyond the capitalist system of the world, which is commonly referred to as neoliberalism (von Werlhof, 2008). It encompasses all of the factors that influence every aspect of societal life, seemingly overcoming any barriers or obstacles, such as national boundaries or policies, whether they come from the country itself or other countries.

Because of globalisation, boundaries are becoming increasingly blurry, which means that there is a significant need for adaptation. As a fundamental principle, globalisation is not a process or phenomenon that can be rejected; rather, it is something that must be accepted with particular attitudes (Hassi & Storti, 2012). Therefore, it is essential to engage in behaviours and activities that are both adaptive and dynamic in order to combat globalisation. The goal of globalisation is to make it possible for every person to

derive the greatest possible advantage from any part of daily activity or experience (Jovanović, 2010). Nevertheless, it is indisputable that, in addition to the realms of technology and information, the economic sphere is the one that is most significantly impacted by the concept of globalisation. Every person has the right to participate in the economy in order to make progress towards achieving economic well-being and fully developing their potential (van Est & Hennen, 2023).

It is interesting to note that globalisation affects not only individuals but also corporations and the money they receive (Baker et al., 2005). Not only does globalisation permeate a variety of facets of human existence, but it also permeates the contexts of numerous societal layers, ranging from the middle class to the top class and even the lower middle class (Suprijanto, 2011). Additionally, economic globalisation gives rise to the idea of inclusive economics, which makes it possible for all levels of society to take part in a variety of economic activities (Wibowo, 2010). It is relatively simple for the economic group that belongs to the upper middle class to adjust to the requirements of globalisation. However, the situation is quite different for the lower middle class, which frequently encounters a variety of obstacles while attempting to reap the benefits of globalisation, such as problems with funding (Purwanto, 2018; Aziz et al., 2020).

When it comes to financial support, the existence of rural banks is extremely important to the society that corresponds to the lower middle class. A bank that is tasked with undertaking conventional and Sharia-based commercial activities that do not provide services in payment transactions is referred to as a rural bank with reference to Law Number 10 of 1998 about Amendments to Law Number 7 of 1992 concerning Banking (Ponadi, 2023). In comparison to conventional banks, rural banks possess a number of distinguishing traits, one of which is the potential to reach out to economically disadvantaged communities in order to give economic access and ultimately strengthen the economy of those places. When it comes to providing support to economically disadvantaged areas, the existence of rural banks is of the utmost importance. This is especially true in the context of globalisation, which tends to disregard these groups.

Despite the fact that it plays a significant part in expanding economic opportunities for communities, the rural bank is confronted with its challenges, particularly in terms of the development of its business strategies. A significant risk to the continued survival of rural banks is posed by the advent of fintech, particularly fintech payments or other businesses associated with fintech. The expansion of the rural bank business unquestionably necessitates the acquisition of money, which may typically be

accomplished through the issuance of stock through the stock exchange or capital market. Despite this, Article 23 of the Banking Law continues to create barriers to the issuing of stocks. This is due to the fact that rural banks can only be founded and controlled by Indonesian citizens and Indonesian legal entities, all of whom are Indonesian citizens. This, in turn, makes it more difficult for foreign investors to participate in Indonesia (Ashari & Nugrahanti, 2020).

Unlike rural banks, startups that do not face similar restrictions, particularly in regulatory aspects, have more potential to attract foreign investment (Ashari & Nugrahanti, 2020). In this scenario, startups are more likely to thrive in the era of globalisation than rural banks. Rural banks, on the other hand, have similar barriers. Rural banks also need help in the realm of digitisation. The process of digitisation is an essential component in fostering the growth of businesses, particularly in the context of the globalisation of the economy. On the other hand, with reference to the Financial Services Authority Regulation Number 12/POJK.03/2016, which is about the Business Activities and Network Regions of Rural Bank, There are restrictions placed on electronic banking activities, which can only be carried out by Rural bank based on Business Activities 3 if it possesses a minimum core capital of Rp. 50,000,000,000. These restrictions are based on Core Capital. The funding issues and constraints on banking operations that rural bank is confronted with, particularly in the context of globalisation, present their own unique set of challenges: On the one hand, there is a requirement for the development of businesses, and on the other hand, there are regulations that restrict the development of businesses.

Additionally, the inability of rural banks to keep up with the times, particularly as a result of globalisation, has the potential to affect socioeconomically disadvantaged communities. The Constitution of the Republic of Indonesia, which was ratified in 1945, ensures that all members of the population (Elviandri et al., 2019), especially economically disadvantaged communities, are entitled to enjoy economic welfare provisions. In the context of globalisation, the state has a responsibility to safeguard and provide social justice for its citizens, and this task is especially important. According to this line of reasoning, improvements to banking legislation are necessary to protect and realise social justice for the overall population. Pancasila, which serves as the fundamental legal rule in Indonesia, should ideally be aligned with these reforms. This is because in order to confront globalisation with a neoliberal nuance, it is vital to take an approach that is anchored in the noble ideals of the local culture, specifically Pancasila (Ismayawati, 2018; Roisah, 2012). The purpose of this research is to investigate the dynamics of rural banks in Indonesia, the

urgency of legal reforms for rural banks facing the challenges of globalisation, and legal reforms for rural banks based on the values of Pancasila. These objectives are based on the issues mentioned above.

2. RESEARCH METHODS

For this investigation, a legal strategy and a normative judicial approach are utilised. According to the Normative Juridical research technique, law is conceived of as either what is contained in legislation (law in books) or as norms or principles that serve as instructions for human behaviour that are regarded proper (Marzuki, 2017). As a result, the term data is not utilised in this research; rather, the term refers to legal materials (Diantha, 2016). The Constitution of the Republic of Indonesia, which was ratified in 1945, as well as legislation dealing with banking, more specifically regulations pertaining to Rural banks, are the legal elements that are being taken into consideration. In order to get all of these basic legal sources, literature research is conducted, and then qualitative analysis is performed on them.

3. RESULTS AND DISCUSSION

Evolution and Regulatory Dynamics of Rural Banks in Indonesia: A Comprehensive Analysis

It was initially the intention of Rural banks to assist economically disadvantaged individuals, such as farmers, employees, labourers, or simply people from disadvantaged economic backgrounds, in order to help them escape economic oppression, such as the trap of moneylenders in the 19th century. (Messina, 2021) Moneylenders frequently charged high-interest rates on loans, which tended to put borrowers at a disadvantage, particularly those who came from economically disadvantaged communities (Wai, 1957). On the other hand, as time went on, rural banks expanded their banking services beyond the scope of their basic mission. Banks that undertake economic activities in accordance with conventional or Sharia principles but do not offer payment transaction services are referred to as rural banks in accordance with Law Number 10 of 1998 about Amendments to Law Number 7 of 1992 concerning Banking. Rural banks have a relatively limited range of activities compared to commercial banks. These activities include receiving deposits, engaging in activities related to foreign exchange, and offering insurance (Meriyati & Hermanto, 2021).

By carrying out their banking operations, Rural Bankare is largely focused on providing services to micro, small, and medium enterprises as well as communities, and they do so in both rural and urban settings. Article 1 of Government Regulation Number 71 of 1992 concerning Rural banks stipulates that Rural banks can be organised in a variety of legal structures, including Limited Liability Companies, Regional Companies, or Cooperatives. These are just a few of the possible formations (Rissy, 2018). It is also important to note that the establishment of a Rural bank is contingent upon receiving authorisation from the Financial Services Authority in order to carry out any business activities (Winarso et al., 2020).

When it came to activities and licencing, in the beginning, they were only able to be carried out with the approval of the Minister of Finance. However, following the amending of Law Number 7 of 1992 concerning Banking with Law Number 10 of 1998, the leadership of Bank Indonesia is now responsible for granting licences to Rural banks. This is in accordance with Article 16, paragraph (1) of the amended law. In addition, as a result of the implementation of Law Number 21 of 2011 concerning the Financial Services Authority, the Financial Services Authority is now responsible for the administrative oversight of all licences that are associated with financial institutions or suppliers of financial services. This includes the Rural bank.

The only area of responsibility that falls under the purview of the Financial Services Authority is the regulation and supervision of activities that take place within the financial services sector (Sutendi, 2014). This is expected to address concerns about the efficiency of coordination mechanisms when it comes to dealing with complaints about the financial system. Rural banks are extremely dependent on the Financial Services Authority when it comes to maintaining legal compliance. For this reason, the Financial Services Authority is directly responsible for regulating all activities, including the founding of a Rural bank (Sulistiyandari & Sutrisno, 2023). In accordance with the Financial Services Authority Regulation No. 20/POJK.03/2014, concerning regional credit institutions, the entities that are authorised to establish a rural bank are restricted to the following: Indonesian citizens, Indonesian legal entities whose owners are Indonesian citizens, and regional governments.

In order for Rural banks to be eligible for a business licence, they are required to possess a minimum of organisational and administrative structures, capital, ownership, competence in banking, and the ability to implement feasible work plans. In addition to this, they are required to take into account the level of healthy competition that exists between banks, the saturation level of the number of banks in a specific region, and the

distribution structure of economic development. Regarding legal forms, Rural bank that can take the form of Limited Liability Companies, Regional Companies, or Cooperatives are subject to the respective laws related to those legal forms, such as Law Number 40 of 2007 concerning Limited Liability Companies for Rural bank in the form of Limited Liability Companies (PT); Law Number 23 of 2014 concerning Regional Government for Rural bank in the form of Regional Companies, and Law Number 17 of 2012 concerning Cooperatives for Rural bank in the form of cooperatives. For the construction of Rural banks, in addition to achieving these standards, there are a number of other essential issues that must be taken into consideration. One of these features is the capital component.

This is in reference to the Financial Services Authority Regulation No. 12/POJK.03/2016, which specifically addresses the Business Activities and Network Areas of Rural banks (Mudia et al., 2021). Capital has an impact on the kinds of operations that Rural banks are able to engage in, and this impact is based on Core Capital. According to this law, the classification of a Rural bank is based on business activities, which are determined by core capital. According to Financial Services Authority Regulation No. 12, there are limitations or restrictions on the sorts of operations that Rural banks can carry out. These activities are classified according to core capital, which refers to the initial capital that Rural banks deposit. Specifically, this rule categorises Rural banks into three different Rural banks based on Business Activities: Rural banks based on Business Activities 1 with core capital of less than Rp. 15,000,000,000,-; Rural bank based on Business Activities 2 with core capital between Rp. 15,000,000,000,- and Rp. 50,000,000,000,-; and Rural bank based on Business Activities 3 with core capital exceeding Rp. 50,000,000,000,- (Widyastuti & Ayu, 2020).

In general, the types of activities that Rural banks engage in are also regulated in this Financial Services Authority Regulation. These activities include fundraising, disbursement of funds, placement of funds, foreign exchange, activities as financial service providers and agents without offices in the context of inclusive finance (Harisa Putri et al., 2019), provision of electronic banking services, payroll services for Rural bank customers, cooperation activities in limited fund transfer from overseas, activities as issuers of Automatic Teller Machine, Debit Cards, Electronic Money, and marketing of Electronic Money from other issuers, fund transfers for their benefit or the benefit of their customers through Rural bank accounts in commercial banks, activities involving cooperation with insurance companies to refer insurance products to customers related to Rural bank products, and receiving deposits for Rural bank products in commercial banks. However,

Article 5 of this Financial Services Authority Regulation places restrictions on the activities that Rural banks are allowed to engage in. On the other hand, a Rural bank, based on Business Activities 3, is granted more leeway in terms of the banking operations that it can engage in, particularly those that are associated with electronic services or electronic banking.

Because of this law, it is clear that capital plays a significant part in giving Rural banks the flexibility to diversify their business activities, which can be an attractive feature for clients. However, the rule that states that Rural banks can only be owned by Indonesian Citizens or Indonesian legal companies that are entirely owned by Indonesian Citizens implies that there are restrictions on the participation of foreign or non-Indonesian citizens' capital. The limitations that are imposed by the applicable regulations, particularly with regard to the kinds of activities that Rural banks can carry out, have the potential to reduce the competitiveness of Rural banks in comparison to other providers of financial services, such as Microcredit facilities that commercial banks, fintech companies, or financial startups offer. In comparison, the three Rural bank competitors that were listed before have more leeway in terms of capital participation because there are no restrictions that require 100% ownership by Indonesian citizens.

In the context of globalisation, with an emphasis on the digitisation of the economy, these three Rural bank competitors that were described earlier are more relevant than they were previously. It was indicated before that the only institution that is able to carry out activities related to electronic banking is a Rural bank based on Business Activities 3, which unquestionably requires a greater core capital. Through the roadmap for the development of Rural Bank and Sharia Rural Bank, the Financial Services Authority intends to provide flexibility for cooperation between these two banking service providers with fintech lending through a many-to-one scheme. This is anticipated to increase agility, resiliency, adaptability, and their contribution to providing financial access to micro, small, and medium-sized enterprises and communities in the region. However, more is needed to address the primary problem that Rural banks are currently facing, which is capital issues.

Strengthening Rural Bank for Inclusive Economic Development in the Era of Globalization

One of the primary goals of economic growth is to liberate people from the constraints of extreme poverty (Mansi et al., 2020). Having access to financial resources is widely seen as an essential component that enables individuals to modify their production activities and employment in order to break free from the shackles of poverty (Sandriharmy

S., 2009). In other words, the development of the financial system has good consequences for the stability and performance of the economy, particularly in a nation such as the United States of America. Countries that have more developed financial systems have a higher potential for economic growth.(Bist, 2018) As one of the most important agents in relation to economic growth, banks perform the role of financial intermediaries. Their primary responsibility is to encourage the accumulation of funds and to distribute those monies to the general public through various banking products (Levine, 1997).

Both the collection and distribution of public monies are primarily accomplished with the intention of bolstering the progress of a nation's national development goals (Fallah Shayan et al., 2022). When viewed from this angle, financial institutions might be considered to be agents of progress. In Indonesia's legislative framework, the purposes and functions of banks are defined by Articles 3 and 4 of Law Number 10 of 1998 about Amendments to Law Number 7 of 1992 concerning Banking. These articles were enacted in 1998. In the context of globalisation, banks play an essential part in ensuring that all members of society are included in the economic system. With the implementation of inclusive economic development programmes to address development imbalances, particularly between urban and rural areas, it is widely acknowledged that it would be easier to maintain sustainable economic development in developing countries such as Indonesia, India, Ghana, South Africa, and others. This is because of the widespread gap that exists between these two types of areas (Reza & Hermawansyah, 2019).

On the other hand, banking rules and policies that place an excessive amount of emphasis on triage within the banking sector and their reforms become a pragmatic response to challenges pertaining to the development of the local economy. When there is an excessive concentration on domestic economic growth difficulties, it frequently results in inefficiencies within the banking industry itself. Banks, in their capacity as financial intermediaries, incur a large amount of responsibility for the expansion of the economy; however, they are not afforded the same opportunities or freedom to ensure the stability of the banking system as other financial entities. The expansion of their firm is also something that banks are interested in.

Providing better access to funding is another step towards achieving an inclusive economy, particularly in this age of globalisation. This is especially important for economically disadvantaged areas or groups (Sudaryo & Yudanegara, 2021). Globalisation, despite the fact that it has significant components of both capitalism and liberalism, is a consequence of the removal of past boundaries and obstacles, as well as

both territorial and inter-country policies. This is something that must be acknowledged. As a result of globalisation, which is characterised by economic openness, modifications are required in other facets of openness, including economics, which ultimately drives the concept of inclusive economics.

Not to mention the fact that inclusive economics should be realised, the idea of Rural banks is essentially one answer for the equitable distribution of economic development. Economically disadvantaged groups have rights that are comparable to those of other groups, particularly with regard to achieving economic and social welfare. In order to achieve economic and social welfare, complete justice must be implemented. Within the context of economically disadvantaged communities, the concept of justice refers to the provision of easy access in order to enable these communities to break free from the shackles of economic and social injustice. As a result, these groups require a different treatment as a form of restitution for the tragedies they experience. Rural banks are nothing more than a concept that aims to realise economic and social justice for communities or groups that have deficient economies.

The strengthening of Rural banks as an institution is something that must go hand in hand with globalisation, which is a process that encourages economic development and provides opportunities for all individuals. Institutions are defined by Douglass North, who was awarded the Nobel Prize in economics, as rules of the game in a society or, more formally, humanly devised constraints that shape human intervention (Mishkin, 2009b). When it comes to contributing to economic progress, institutions should make it possible for a nation to direct its resources into productive endeavours. Institutions of this nature require support in a variety of forms, including support from a legal system that is both effective and efficient, as well as a financial system that is both healthy and efficient.

It is widely known that parties that have great access to finance will gain from strong globalisation that incorporates aspects of capitalism and liberalism. This is true not just for individuals but also for institutions, particularly Rural banks. Confronting globalisation can be difficult at times, particularly for nations that are still in the process of developing. When it comes to tackling highly dynamic changes that are the result of technical and informational openness, the challenge originates from legal issues that are still somewhat rigid. Legal opposition, particularly in the context of Rural banks, can be seen as an antithesis to globalisation, with the pretence of defending against capitalist interests. This is especially true in the context of globalisation. During the time that other nations are working to gain more from globalisation, countries that claim to be protecting themselves

from capitalism become obstacles, particularly for economically disadvantaged communities and groups that cannot fully profit from globalisation itself.

The issue of global economic slowdown is a sensible reaction to the problem of global economic slowdown, which revolves around the mismatch between economic potential and its actual performance, hence giving rise to new economic concepts. Looking back, globalisation in the economic aspect is a rational solution to the issue. The new economic concepts that have emerged as a result of globalisation are designed to stimulate economic growth in developing nations. However, developing countries are unable to maximise the benefits that they receive from this new wave. In that case, the economic inequities that exist on a global scale will only become more pronounced. These kinds of occurrences can be seen all around Asia, but South Korea offers a unique illustration of this phenomenon (Mishkin, 2009a).

In addition to welcoming the new economy and globalisation, South Korea was also at the forefront of the transformation, particularly in the Asian region. The South Korean government recognised that globalisation gave a chance for reforms that may reap benefits through globalisation. These reforms expressed themselves in the form of changes to their banking law. However, protection is provided by limitations on the number of shares owned by the same individual in the banking business (Article 15). This law does not contain any regulations on ownership based on citizenship; however, it does provide protection.

There have been a variety of responses to globalisation from various nations, including those that pertain to Rural banks, such as India's decision to nationalise Rural banks. The Bank of India occupies a significant position in India, particularly when taking into consideration the large levels of debt, particularly in rural regions (Bhatt & Thorat, n.d.). The communities in rural India that are mostly agricultural must have access to long-term funding in order to carry out their economic operations (Ramachandran & Swaminathan, 2002). As is the case in Indonesia, the objective of the Rural bank programme in India is to lessen the gaps in economic development that exist between rural and urban areas (Burgess & Pande, 2005). There have been a number of reforms implemented, some of which include institutional reforms, such as the nationalisation of Rural banks in India, as well as improvements in banking and agricultural law. Taking into consideration the potential and requirements of rural areas, which are primarily comprised of farmers, these procedures are done. With the goal of maximising the benefits of globalisation and achieving inclusive economics for rural people, digitalisation in business

process outsourcing in India is also being carried out. Ghana and Uganda are also working towards Rural bank reforms in different ways.

Ghana and Uganda face similar issues in the process of developing inclusive economies in the midst of the economic struggles of their respective populations. Globalisation presents opportunities for both countries to take advantage of. Ghana and Uganda are also confronted with the same problem, which is the growth of non-formal banking organisations that offer savings and lending services (Seibel, 2003; Adusei, 2015). This problem is comparable to the one that Indonesia encountered in the early days of creating Rural banks. The national governments have responded by enlisting the assistance of a number of non-governmental organisations in order to supply financial services to the people, particularly those located in rural areas. The majority of these non-governmental organisations in the financial sector originate from countries other than Ghana and Uganda. Their capacity to function and structure themselves is made feasible by globalisation itself. The governments of both nations have shown little reluctance to recognise and resolve rising problems in their respective countries.

The most recent banking law reform was carried out in 1998, and it is now necessary to adapt to the dynamic development of economic, social, and especially economically poor groups that are in need of inclusive economic development. This argument is dependent on the presence of Rural banks. Furthermore, the presence of Financial Services Authority Regulation No. 12/POJK.03/2016, which restricts Rural bank activities based on its core capital, and the Banking Law, which restricts Rural banks from acquiring capital access, particularly through Foreign Direct Investment (FDI), are both factors that contribute to the situation. When compared to Rural banks' primary competitors, such as rural credit from Commercial Banks, fintech, and startups, which have more freedom in getting financing and the flexibility to digitalise their products and services, this is a significant difference. The necessity for the community to do business without being constrained by location or time is the driving force behind the fact that digitalisation plays an essential part in the era of globalisation.

In the context of the state's role in providing access to social and economic justice, particularly to economically disadvantaged populations, the way in which the state restricts the operations of Rural banks through regulations also means that the state restricts the access that individuals have to social and economic justice. As stated in the preamble of the Constitution of 1945, which states that the state is obligated to realise justice and prosperity and to promote the general welfare, this goes against the mission that the

constitution has established. On the other hand, in accordance with this mission, the state is also obligated to defend the people by safeguarding Rural banks, particularly from the hazardous impacts that are brought about by globalisation.

When considering social justice, it is essential to consider John Rawls (1971) theory of justice, which states that justice must adhere to two principles: the principle of equal liberty and the difference principle. The first premise pertains to an individual's entitlement to fundamental rights as a human being and member of society. In contrast, the second principle arises from the socio-economic inequalities present in the community. Both principles apply to the challenges encountered by rural banks, specifically the growing disparity in capital accessibility between commercial banks and rural banks. This disparity can undoubtedly impact the community's perception of fairness, particularly among those with disadvantaged socio-economic conditions or falling behind the general population.

John Rawls' second principle of justice highlights the need to provide more advantages to groups that lack liberty, particularly those with diverse economic, political, or social constraints. Even his secondary priority rules developed from this concept, assert that A disparity in opportunity must improve the opportunities of those with fewer chances; A disproportionately high rate of saving must alleviate the burden of those enduring this hardship. The limited development access to rural banks is mainly attributed to ownership constraints, notably among Indonesian residents. This implies that rural banks are prohibited from issuing shares through the stock exchange to address capital concerns. The issue of capitalisation has become a pressing concern, mainly due to the implementation of Financial Services Authority regulations that impose restrictions on banking activities for rural banks. These regulations also impact the ability of rural banks to thrive in the age of globalisation, as they now need to offer electronic banking services and Automated Teller Machines.

Navigating Legal Reforms: Upholding Pancasila Values for Rural Banks in the Era of Globalization

Digitalisation and globalisation, particularly in the realm of commercial and corporate activity, make it possible to engage in borderless trade throughout the globe (Petricevic & Teece, 2019). The presence of rules that regulate this advancement is automatically implicated, whether directly or indirectly, by this advancement. Autonomy, honesty, fairness, mutual benefit, and moral integrity are the five characteristics that should be reflected in business principles (Garrigan et al., 2018). These values should be substantially reflective of ethics. This is also in accordance with the Caux Round Table

Principles for Business, which govern the application of business principles. These principles include responsibility, economic and social impact, business, innovation, justice, and global society; business behaviour; respecting regulations; showing support for multilateral trade; showing respect for the environment; and avoiding corrupt practices (Carroll, 2013).

These business ideas are also fundamentally applicable to the banking industry, including rural banks and other financial institutions. Business principles and the ability to react to changing social, economic, and developmental dynamics are the two aspects that are implicated in this situation. There is no doubt that technological advancements and information influence the dynamics of Indonesia's development in the context of globalisation, the incorporation of artificial intelligence, the accumulation of large amounts of data, and the transformation of automation into the new standard in business. This is done in order to keep up with the changing market and the changes that are occurring in society. Ironically, in the middle of the increasingly intense competition that is requiring the transformation of businesses into digital forms, Rural banks, which are at the forefront of bringing inclusive economics to economically disadvantaged communities, are confronted with a multitude of challenges and constraints. Rural banks are confronted with basic challenges, including legal or legislative concerns, which are the obstacles they must overcome.

Law, as a driver of development, is an effort to build laws in a broader context. This can be accomplished either by reviewing existing laws or establishing a new legal system in a systematic and planned manner. The goal is to construct a legal system that realises legal ideals that are in line with what is contained in the Constitution of the Republic of Indonesia from 1945 and Pancasila. Lili Rasjidi and IB Wyasa Putra (2003) said that the purpose of legal development is to construct a legal system that will position Indonesia in the middle of the world map and allow it to play its role in the global situation through the implementation of legal development. Legal reform can be accomplished through the reconstruction of the law, the intensification of legal functions, and the development of legal functions through the structure, management, and development of the law.

Legal reform is only carried out with the intention of achieving prosperity and happiness for the people through justice and order in the context of efforts to equalise, grow, and expand economic activities on a national and international scale. These efforts are carried out through policies that aim to improve the business climate (healthy business competition). Within the framework of globalisation, which is strongly related to free

competition, it will undoubtedly confer a greater number of benefits upon those parties that possess a more robust economic ability, regardless of whether they are individuals, groups, or legal entities. Rural banks, which are fundamentally legal entities, have a lower level of total capital capacity than commercial banks or companies that are based on digital technology. Additionally, in contrast to Rural Bank, which is limited in its ability to provide funds due to ownership status based on citizenship, both Rural Bank's competitors have greater legal freedom in this regard.

Rural banks are in a precarious position as a result of the rising competition and the demands of glocalisation. It is not improbable that the challenges that rural banks face will also have an impact on society, particularly on economically disadvantaged groups. Currently, the most significant challenge is posed by the regulations that govern the Rural banks themselves. These regulations are regarded as insufficient to handle the dynamic difficulties that have arisen as a result of the changing times, which necessitates attempts to reform the legal system.

The reform of the legal system cannot be carried out randomly; rather, it must take into account local values that correspond to the moral compass of a nation's society. During the process of implementing legal changes, it is important to take into account the moral relationship that exists between citizens and the state, as well as the capacity of the political and legal system to fulfil the requirements and expectations of the people in terms of justice. Rural banks are an essential component in the process of bringing about social and economic justice for the general populace by means of the adoption of inclusive economic approaches.

The development of legal material in legal reforms to address the difficulties of globalisation, particularly those which are encountered by Rural banks today, should embody the principles of Pancasila and be in keeping with the spirit that is embodied in the Constitution of the Republic of Indonesia, which was ratified in 1945. In this argument, Pancasila must unquestionably become the only source and base that may describe the moral relationship that exists between citizens and their state. As was mentioned earlier, legal reform must take into consideration the moral relationship that exists between citizens and their state. In addition, the process of legal reform ought to be carried out while taking into consideration a number of factors: The law is not a tool or facility that may be used to attain rationality; rather, reasonableness must be reflected in the law itself. Within the scope of this discussion, the term rationality refers to the capacity of the law to accomplish its

legal objectives, as well as a manifestation of the nation's admirable principles, which include tolerance, humanity, unity, democracy, and justice (Setiyono & Natalis, 2023).

The values of Pancasila depict a moral Indonesian nation that respects each other and protects human rights without discrimination, upholds unity for all elements of the nation, and builds social justice in the economic and societal fields to realise people's sovereignty and good laws carried out on a national and international scale (Siallagan & Syuhada, 2023). The influence of ideas that do not reflect national values is one of the most significant issues and obstacles that will undoubtedly be encountered during the process of legal reform. Legal reform that is founded on national values, specifically the values of Pancasila, is therefore something that needs to be carried out. All rules and regulations, particularly those pertaining to the banking industry, must be constantly brought to the notice and evaluation of the state. According to this point of view, new banking laws need to be developed that strictly comply with the principles of Pancasila in terms of regulations that pertain to transactions on a national and international scale or any form of financial cooperation, particularly those that involve the participation of foreign capital companies.

In order to achieve legal harmonisation that takes into account the desires of the people while also satisfying the requirements of the times, it is anticipated that the banking laws pertaining to Rural banks will undergo legal reform efforts. Because Indonesia is a participant in the process of economic globalisation, the country must be able to adapt to the dynamic nature of the global economy, which is always shifting. The state is obligated to develop the capacity to withstand economic shocks inside its borders by implementing economic policies that are inclusive of all of its citizens. In order to ensure that the restructuring of laws does not impede the process of national growth, the state must improve the competitiveness of Indonesian products and, as a result, undertake legal restructuring.

4. CONCLUSION

The dynamics of regulating rural banks in Indonesia indicate that initially, rural banks were intended to assist economically weak communities, such as farmers, employees, labourers, or simply economically disadvantaged communities, in breaking free from economic oppression. Another example of this would be the moneylender's trap, which was prevalent in the 19th century. Rural banks, on the other hand, have developed over time to offer a wider variety of financial services than they were originally intended to do. Rural banks are banks that carry out normal business activities or are based on Sharia

principles, and they do not provide services in payment transactions. This is in reference to Law Number 10 of 1998, which dealt with amendments to Law Number 7 of 1992, which dealt with banking. When it came to the licencing and operations of Rural banks, in the beginning, they were only able to be carried out with the authorisation of the Minister of Finance. However, following the amending of Law Number 7 of 1992 concerning Banking with Law Number 10 of 1998, the leadership of Bank Indonesia is responsible for granting business permits for Rural banks. This is stated in Article 16 paragraph of the amended law. Furthermore, as a result of the implementation of Law Number 21 of 2011, the Financial Services Authority is now responsible for the administration of all licences that are associated with financial institutions or suppliers of financial services. This includes licences for Rural banks.

Legal reforms must be implemented for Rural banks in order to address the challenges posed by globalisation. This is due to the fact that Rural banks are the backbone of the state in the realisation of inclusive economics for all Indonesian people. This is because of the nature of their business, which is to provide banking services to economically disadvantaged communities. As opposed to commercial banks, Rural banks are able to easily give access to finance for both rural and urban communities through very straightforward methods. The progression of time, on the other hand, has resulted in globalisation, which brings about the elimination of boundaries in the lives of individuals. New requirements have been developed by societies that are following the dynamics of changing times. These new needs include the ease of conducting transactions and the availability of financing. Rural banks can fulfil these new needs by digitalising banking through the provision of electronic banking facilities. There is a need for electronic banking facilities, but there is also a significant impediment to their realisation. This obstacle is the restriction of Rural bank activities through Rural banks based on Business Activities. On the one hand, there is a demand for electronic banking services.

Legal reforms for Rural banks based on Pancasila Values that efforts to reform the law on Rural banks must pay attention to the noble values of the nation reflected through Pancasila values that are moral, respectful, and protect human rights without discrimination; upholding unity for all elements of the nation, and building social justice in the economic and societal fields to realise people's sovereignty and laws. All rules and regulations, particularly those pertaining to the banking industry, must be constantly brought to the notice and evaluation of the state. When seen from this angle, new banking laws must strictly comply with the Pancasila values in legislation pertaining to transactions

on a national and international scale or any form of financial cooperation, particularly those that involve the participation of foreign capital.

In order to meet the difficulties posed by globalisation and to guarantee the economic sovereignty of the people, it is anticipated that the House of Representatives will change the Banking Law in Indonesia in relation to the organisation of Rural banks based on the principles of Pancasila.

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