The Legality And Legal Force Of Girik As Collateral In Credit Provision By Rural Banks

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Abstract.

This study aims to analyze the validity of using Girik documents as collateral in credit provision by Rural Credit Banks (BPR) based on the perspective of property security law and OJK regulations. Although Girik is administratively recognized in BPR practice based on POJK No. 1 of 2024, legally this document does not meet the requirements as an object of a security interest under Law No. 4 of 1996. Girik is merely proof of payment of land taxes and not proof of ownership rights over land, thus it cannot grant executory rights to creditors in the event of default. This study employs a normative legal approach that examines relevant laws and regulations and legal doctrines. The findings indicate the need for regulatory harmonization and strengthening of land rights conversion mechanisms to recognize documents like Girik as formal collateral. This study provides legal and policy recommendations for BPRs and regulators in establishing an inclusive credit system that ensures legal certainty and protection.

Keywords: *Girik; Credit Collateral; BPR; Mortgage Rights and OJK.*

I. INTRODUCTION

The banking industry in Indonesia is a highly regulated sector due to its vital role in collecting public funds and channeling credit to economic actors. Banking accounts for around 76% of the national financial sector, demonstrating its dominant position in supporting the Indonesian economy. Within the banking institutional structure, Rural Banks (BPR) play a strategic role, particularly as drivers of regional economic growth and supporters of the Micro, Small, and Medium Enterprises (MSME) sector, as outlined in the Explanatory Notes of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (UU P2SK). MSMEs themselves contribute 61.07% to the Gross Domestic Product (GDP) and absorb approximately 97% of the national workforce. Therefore, resilience and legal certainty in BPR banking practices are crucial. In practice, BPRs, particularly in rural areas, often face challenges in granting loans due to the lack of valid land ownership documents, leading them to use informal documents such as Girik as collateral. The main issue arises because Girik lacks formal legal recognition under the collateral regime, particularly within the framework of Law No. 4 of 1996 on Mortgage Rights (UU HT).The research problem specifically lies in the legality and legal validity of using Girik as collateral in credit provision by BPR, both from the perspective of collateral law and banking law. Although the Financial Services Authority Regulation (POJK) No. 1 of 2024 stipulates that BPRs must adhere to the principle of prudence through a 5C analysis (character, capacity, capital, collateral, and economic conditions), there are no specific provisions regarding the eligibility standards for collateral forms, particularly in the context of using Girik.

In practice, BPRs often use Girik that cannot be encumbered with a mortgage and are only accompanied by a Power of Attorney to Sell, which legally does not provide maximum protection and creates uncertainty in the collateral enforcement process in the event of default. Therefore, this study aims to examine whether the use of Girik can be considered valid as collateral and whether it has enforceability in national banking practice.Previous studies have discussed the practice of using non-formal land documents such as Girik in providing bank credit. Sihombing et al. (2023) noted that rural banks still often rely on Girik due to the lack of formal land registration in rural areas, which in turn creates legal ambiguity in enforcing credit agreements. Similarly, a study by Payoga & Suwadi (2024) emphasizes that BPRs play an important role in SME financing but often face high credit risks due to the use of informal collateral. Hutapea (2020)

shows that digital technology and comprehensive credit information systems can be solutions to address the administrative and legal document limitations faced by borrowers. Senyo et al. (2022) underscore the need for a collaborative approach involving legal authorities, banks, and local communities to harmonize banking practices with traditional land structures. All these studies indicate that although Girik is widely used, its validity remains highly dependent on local contexts and lacks a clear national legal framework.Although previous studies have highlighted the problems of Girik use and the accompanying legal challenges, no research has comprehensively examined the validity of Girik as collateral from the perspective of collateral law based on the HT Law and OJK regulations simultaneously.

Most studies have focused on sociological or administrative aspects without linking them to the normative framework of banking law and property security law in detail. Additionally, there is a lack of legal analysis on how the inconsistency between the use of Girik and the HT Law could impact the resilience of the local financial system, particularly if BPRs cannot enforce collateral in cases of default. Therefore, this study fills this gap by combining a legal analysis of banking regulations, property security law, and legal practices in the field.The urgency of this study arises from the widespread practice of using Girik as collateral by BPRs in various regions in Indonesia, despite the lack of a strong legal basis. In the absence of legal certainty, BPRs face high risks in lending, which can impact regional financial stability and the sustainability of intermediation functions. The primary objective of this study is to analyze the validity, legality, and legal force of Girik as collateral in credit provision by BPRs, as reviewed under the Law on Security Rights and OJK regulations. Additionally, this study aims to provide legal recommendations that can serve as a reference for BPRs, financial authorities, and regulators in formulating inclusive credit policies based on collateral while remaining consistent with legal principles. Practically, the results of this study are expected to serve as a guideline for banking practitioners, notaries, and law enforcement officials in handling problematic credit cases involving Girik, while also promoting legal and financial literacy among rural communities, who are the primary customers of BPR.

II. LITERATURE REVIEW

Overview of Rural Banks: Structure and Functionality

Rural banks, particularly in Indonesia, play a strategic role in providing essential financial services to underserved populations. They serve as critical institutions aimed at financing local economic activities and facilitating access to credit for micro and small businesses (MSBs) that traditional banking institutions often overlook. According to Ferdinansyah et al., rural banks operate on principles involving both conventional and Sharia-compliant practices, addressing the diverse financial needs of rural communities (Ferdinansyah et al., 2023). The legal framework governing rural banks is substantial, built upon Law Number 10 of 1998, which outlines their operational mandates and responsibilities (Ferdinansyah et al., 2023). This legal foundation is vital as it articulates the role of these banks not only in economic growth but also in upholding the financial stability of rural areas.

However, the operational effectiveness of rural banks remains contingent on substantial investment in human resources and technology, as highlighted by Widyastuti and Ayu, who identify the reluctance of these institutions to embrace digital transformation due to high operational costs and resource constraints (Widyastuti & Ayu, 2020). The evolving landscape of rural banking necessitates constant adaptation to global economic pressures and local demands. Sinaga et al. argue for a re-evaluation of banking laws based on Pancasila Values, emphasizing the need for legal reforms to enable rural banks to thrive amidst challenges posed by globalization (Sinaga et al., 2024). These adjustments are integral to maintaining the relevance and effectiveness of rural banks, ensuring their alignment with both local cultural values and international banking standards.

Legal Considerations Surrounding Girik as Collateral

The concept of "girik," or land certificates, as a form of collateral in credit provision is foundational for rural banks in Indonesia. This practice requires a nuanced understanding of legal frameworks surrounding land ownership and borrowing practices. The legal status of land certificates provides a security mechanism for lenders while simultaneously reflecting the socio-economic realities of rural borrowers (Purwaningsih et

al., 2023). The use of girik as collateral offers rural banks a way to mitigate risks associated with lending, as land ownership underscores a borrower's commitment to repaying debts.Legal protections exist for both debtors and creditors within this framework. Purwaningsih et al. detail how rural banks have adapted their credit agreements in response to the COVID-19 pandemic by implementing mechanisms such as novation and subrogation to enhance debtor protections, enabling more sustainable repayment strategies (Purwaningsih et al., 2023). This adaptability not only illustrates the resilience of rural banking practices but also showcases the regulatory measures designed to ensure that collateral, such as girik, continues to serve its purpose effectively.Furthermore, the legal bindingness of girik as collateral is strengthened by specific regulations stipulated under Indonesian property law. These regulations dictate the acceptable forms of collateral and highlight the necessity of ensuring that these assets are legally recognized and protected, ultimately bolstering the lending process for rural banks.

Challenges and Risk Management in Rural Credit Provision

Despite the benefits associated with using girik as collateral, various risks persist within the framework of rural bank lending. The unique socio-economic characteristics of rural communities often lead to difficulties in credit recovery, particularly related to borrowers' financial literacy and the agricultural cycles that dictate income flow (Ali et al., 2022). These challenges necessitate robust risk management strategies that rural banks must formulate to navigate potential defaults effectively.Brei et al. indicate that competition among banks can exacerbate credit risk if not managed judiciously, particularly when aggressive lending practices supersede thorough risk assessments (Brei et al., 2020).

This reality is particularly pertinent in rural banking contexts, where the combination of limited financial acumen among borrowers and socio-economic pressures put immense strain on repayment schedules. Therefore, developing comprehensive risk management frameworks is essential for sustainability and for preserving the financial integrity of rural banks.Moreover, the presence of comprehensive legal frameworks can mitigate some of these risks by ensuring that proper lending practices are enforced, thereby protecting both the borrower and lender in transactions. Gupta and Shukla stress the importance of consumer protection policies and the need for transparency in financial operations to foster trustworthy relationships between banks and customers (Gupta & Shukla, 2024). Such legal integration underscores the significance of establishing a clear set of regulations that enhance operational stability within rural banking ecosystems.

Future Directions and Policy Implications

As the landscape of rural banking evolves, the integration of sustainable practices within its operative framework is increasingly vital. Green banking, which emphasizes eco-friendly banking practices, has begun to take center stage in policy discussions (Beebeejaun & Maharoo, 2024). Recognizing the impact of environmental sustainability on economic resilience can lead to the development of innovative products that align with both financial goals and environmental safeguarding.Research by Bang et al. furthers this discourse by proposing that financial capacity and regulatory frameworks significantly influence the adoption of green banking practices in developing regions (Bang et al., 2023). Implementing a legal structure that supports sustainable banking practices will not only benefit individual banks but also enhance community resilience against economic turbulence. Such measures can foster greater investment in rural infrastructure and empower communities economically.

III. METHODS

This study uses the normative juridical method, which is a legal research method based on the analysis of legal norms written in legislation, jurisprudence, legal doctrine, and various relevant legal literature. This method aims to examine the legality of a legal phenomenon by referring to applicable positive legal provisions. In the context of this study, the normative legal approach is used to analyze the validity of the use of Girik as collateral or security in the practice of lending by Rural Banks (BPR). The analysis will focus on how the applicable laws and regulations, particularly in the field of banking law and security law, view this practice and how it affects legal certainty and protection for the parties, particularly creditors (BPR) and debtors.In this study, the scope of legal review is limited to legislation in the field of banking law, particularly those governing the operations of BPR, such as the Financial Services Authority

Regulation (POJK) Number 1 of 2024 concerning the Quality of Assets of Rural Banks. Additionally, the study includes property security law, specifically referring to Law No. 4 of 1996 on Mortgage Rights (UU HT), to assess whether uncertified land ownership documents such as Girik can qualify as valid collateral.

This study will also examine legal doctrines, academic views, and developing banking practices in relation to the use of informal documents as collateral. The aim is to gain a comprehensive understanding of the legal position of Girik in the national financing system and its implications for the operational sustainability of rural banks in the region.In terms of its characteristics and approach, this study is descriptive and analytical in nature, aiming to provide a systematic, factual, and accurate description of the legal issues under investigation. It is descriptive in the sense that it describes the positive legal situation regarding the binding of collateral by rural banks and how Girik is positioned in lending practices. Analytical in the sense of providing legal interpretations and normative arguments regarding the conformity or non-conformity of these practices with applicable legal provisions. Thus, this study not only answers questions regarding legality but also provides a normative basis that can be used by policymakers, legal practitioners, and banking practitioners in making decisions related to the use of Girik as collateral. The primary focus remains on the positive law currently in force in Indonesia, though it does not preclude the possibility of recommending legal reforms based on the findings of the research.

IV. RESULT AND DISCUSSION

Girik as Collateral under the HT Law

Before further examining the eligibility of Girik as collateral for encumbrances under the HT Law, it is necessary to first explain the meaning of Girik, which is the subject of this study. Girik is a term referring to a tax payment receipt in rural areas, which, prior to the enactment of Law No. 5 of 1960 on Basic Provisions of(hereinafter referred to as "UUPA"), Girik was used as evidence of the recording of land boundaries granted to certain individuals, accompanied by the name of the owner, with the purpose of determining taxes on the land and resolving boundary disputes between landowners or with the government. From this term, it is clear that Girik is not evidence of land ownership rights, but merely evidence of payment of land taxes. Furthermore, Article 1(20) of Government Regulation No. 24 of 1997, as last amended by Government Regulation No. 18 of 2021 on Land Registration (hereinafter referred to as the "Land Registration Regulation"), stipulates that a certificate is the sole legal evidence of ownership rights over land pursuant to Article 19(2)(c) of the UUPA.

Thus, it is clear and explicit that the Girik to be examined in this study is proof of payment of land tax and not proof of ownership of a right to land, so that Girik is not proof of a property right, considering that a property right is a right that gives direct power over an object, which can be defended against anyone. Referring to the fact that Girik is not proof of ownership of land as referred to in the UUPA, it can be clearly stated that Girik cannot be used as collateral for a Mortgage Right, as can be clearly seen from the definition of Mortgage Right itself in Article 1(1) of the HT Law, as explained in the previous introduction, namely a security right imposed on a right to land under the UUPA. This is further reinforced by the provisions of Article 4, paragraphs (1) to (3) of the HT Law, which limit the objects of collateral for a Mortgage Right to Freehold Rights, Rights to Use Land for Business Purposes, Rights to Build on Land, Rights to Use State Land, and Rights to Use Land under Freehold Rights. However, upon further examination, the Land Registration Regulation still recognizes the existence of old rights over land that are still recognized as regulated in Article 24(1) of the Land Registration Regulation, which states:

> "*For the purposes of registration of rights, rights to land originating from the conversion of old rights shall be evidenced by written proof of the existence of such rights in the form of written evidence, statements whose accuracy has been verified by the Adjudication Committee in systematic land registration or by the Head of the Land Office in sporadic land registration, which shall be deemed sufficient for the registration of rights, right holders, and other parties' rights encumbering such rights.*"

From the above provisions, Indonesian law still recognizes old rights that can be converted into land rights in accordance with the UUPA, proven by written evidence of such rights. Furthermore, Article 24(1)

of the Land Registration Regulation provides further clarification on the forms of evidence for such old land rights, one of which is the Girik. Thus, Girik still has the potential to be used as collateral for a mortgage, provided that conversion is carried out first. To accommodate this, the HT Law has actually established provisions allowing the encumbrance of Girik, which is a type of old right to land that has not been registered as collateral for a mortgage. This is regulated in Article 10 paragraph (3) of the HT Law, which states:

> "*If the object of the Mortgage Right is a right to land originating from the conversion of an old right that has met the requirements for registration but has not yet been registered, the granting of the Mortgage Right shall be carried out simultaneously with the application for registration of the right to the land concerned*."

However, upon further examination, the HT Law does not mean that Girik is permitted as an object of a Mortgage Right, but rather establishes procedural requirements to enable Girik to be used as collateral for a Mortgage Right by stipulating that the Girik must first be registered concurrently with the grant of the Mortgage Right over the Girik. Only after the Girik has been registered as a land right under the Land Law (UUPA), can the encumbrance of the Mortgage Right be carried out.

For this purpose, the HT Law also provides a special process to accommodate the need for prior registration of the Girik, namely through Article 15(4) of the HT Law, which permits the issuance of a Power of Attorney to Encumbrance a Mortgage right first, with a validity period of 3 (three) months from the date of the Power of Attorney to Encumbrance a Mortgage right, which is a longer period compared to the validity period of the Power of Attorney for the Encumbrance of Mortgage Rights on registered land rights, as explained in the explanation of Article 15(4) of the HT Law.Based on the above explanation and when linked to the practice of securing Girik as collateral in credit facilities provided by BPR by merely listing the Girik as collateral in the credit agreement and issuing a Power of Attorney to Sell Land for the pledged Girik with the debtor as the grantor and BPR as the grantee, as previously explained in the background section, such practices are inconsistent with the provisions of Article 10(3) of the HT Law.

This is because such practices do not include the registration of the mortgaged Girik for conversion into land rights under the Land Law, nor do they involve any process of securing a mortgage right over the mortgaged Girik. Instead, the BPR as the creditor and the debtor simply arrange this among themselves in their agreement, accompanied by a power of attorney to sell the Girik. As a consequence, the BPR, as the creditor, does not hold any security rights over the Girik that are not secured by the mortgage agreement, particularly regarding executory titles, namely the right to sell the collateral for debt repayment with the right of first refusal (*droit de preference*), which is the right to take control of the land rights for debt repayment with priority over other creditors.[3] The absence of such security rights eliminates the essence of the creation of collateral from the outset, as collateral, as referred to in Article 1(22) of the P2SK Law and Article 1(22) of the Banking Law, serves as additional security to guarantee the repayment of loans granted by the BPR. Thus, in essence, the granting of credit with such collateral security practices becomes meaningless and has the same legal structure as granting credit without collateral.

Girik as Collateral under OJK Regulations

In Indonesian banking law, the term "jaminan" (collateral) frequently used in banking regulations refers to the term "agunan" (security), which is defined in Article 1(22) of the Banking Law as additional security provided by the debtor to the bank in connection with the granting of credit. The regulation of collateral as part of the credit granting process, which is a business activity of banks, is further regulated by the OJK as the competent authority for such matters, as stipulated in Article 7(a)(2), which states:

> "*To carry out its regulatory and supervisory duties in the banking sector as referred to in Article 6 letter a, the OJK has the authority to:*
> *a. regulate and supervise banking institutions, including:*
> *1. licensing for the establishment of banks, the opening of bank offices, articles of association, work plans, ownership, management and human resources, mergers, consolidations and acquisitions of banks, as well as the revocation of bank business licenses; and*

2. banking activities, including sources of funds, provision of funds, hybrid products, and activities in the field of services;

b. ...

Based on the above authority, the OJK stipulates provisions related to BPR Credit Policy (hereinafter referred to as "KPB") in POJK No. 1/2024, which in Article 45 stipulates that:

(1) "For the provision of funds in the form of Credit, BPRs shall:

a. have and implement written credit policies and procedures referring to the BPR Credit Policy Guidelines contained in Appendix III, which is an integral part of this Financial Services Authority Regulation; and

b. conduct periodic evaluations of credit policies and procedures in accordance with the needs of the BPR.

(2) The credit policy as referred to in paragraph (1) must contain at least:

a. the principle of prudence in lending;

b. credit organization and management;

c. credit approval policy;

d. credit documentation and administration;

e. credit supervision;

f. handling of non-performing loans; and

g. periodic evaluation of credit policies and procedures as referred to in paragraph (1).

From the above provisions, it can be seen that OJK through POJK No. 1/2024 has stipulated that BPRs are required to have a KPB as a reference for BPRs in conducting lending activities. However, the OJK grants BPRs the authority to determine the contents of the KPB by referring to and in accordance with the KPB guidelines established by the OJK in Annex III of POJK No. 1/2024. Furthermore, Annex III as a guideline for the preparation of the KPB states in Chapter II, Sub-chapter A, number 1, letter a:

"a. Credit Granting Policy

Credit granting policy includes basic policies governing sound credit granting, collateral assessment, credit granting to parties related to BPRs, group debtors, and/or large debtors, credit to economic sectors, business activities, and high-risk debtors, as well as credit that should be avoided.

1) Sound credit granting policy, ...

a) sound credit procedures and authority, including credit analysis procedures, credit approval procedures, credit documentation and administration procedures, and credit monitoring procedures;

b) Loans that require special attention;

c) Procedures for handling non-performing loans, consisting of loan rescue and loan settlement; and

d) Settlement of collateral that has been taken over by the BPR from the proceeds of loan settlement.

2) Collateral assessment policy, which shall at least include:

a) procedures and methods for assessing collateral from a legal and economic perspective, including:

(1) collateral ownership documents;

(2) collateral encumbrance;

(3) determination of collateral appraisal value; and

(4) determination of collateral value limits in relation to the amount of credit to be granted,

taking into account changes in collateral value during the credit period as well as risk mitigation in the event of obstacles to collateral execution, including separate ownership of land and buildings on the land, both of which are pledged separately.

b) ..."

From the above provisions, it is clear that the KPB also contains provisions regarding BPR policies relating to collateral in granting credit, particularly in relation to collateral attachment. Based on this, it is clear that the determination of collateral based on collateral valuation as one of the components of the KPB is the authority of the BPR. Therefore, regarding the practice of securing Girik as collateral without being secured by a mortgage and not in accordance with the HT Law in the granting of credit by BPR, such

practice is considered legal and permissible, as BPR has the authority to determine the type of collateral and how it is secured, and there are no POJK provisions prohibiting such practice.Upon further examination, the practice of using Girik as collateral in credit disbursement by BPR without securing it with a mortgage right, as stipulated in the HT Law, also appears to be implicitly recognized and legalized by the OJK. This can be seen from several provisions of various OJK regulations, namely in the provisions of Article 20 paragraph (1) letter e of POJK No. 1/2024 and its explanation, which reads:

Article 20 paragraph (1) letter e of POJK No. 1/2024

"The value of *collateral considered as a deduction in the calculation of the special PPKA as referred to in Article 19(3) shall be set at a maximum of:*

a. ...;

b. ...;

c. ...;

d. ...;

e. 50% (fifty percent) of the Taxable Object Value based on the Tax Liability Notice or the latest Taxable Object Value Certificate from the competent authority, or from the market value based on an appraisal by an independent appraiser or competent authority, for collateral in the form of land and/or buildings with ownership in the form of a customary land title;

Explanation of Article 20 paragraph (1) letter e of POJK No. 1/2024

"The term "Tax Liability Notice or the latest Taxable Property Value Certificate" refers to the latest Tax Liability Notice or Taxable Property Value Certificate available.

What is meant by "customary land recognition letter" includes girik, petok D, letter C, rincik, and/or ketitir."

From the above provisions, it is clear that the OJK implicitly recognizes the practice of Girik collateral that is not bound by a mortgage under the HT Law in credit activities by BPRs. The same can be seen in the provisions of Annex I of OJK Circular Letter No. 8/SEOJK.03/2019 on the Monthly Report of Rural Credit Banks, which regulates the List of Collateral Types in the Monthly Report of Rural Credit Banks. In that annex, specifically at point 2(d), it is clear that the OJK recognizes land with customary ownership documents, referring to Girik documents as explained in the explanation of Article 20(1)(e) of POJK No. 1/2024, as one of the forms of collateral reported in the monthly reports of Rural Credit Banks. Therefore, it can be concluded that the use of Girik as collateral without being secured by a mortgage under the Mortgage Law in the granting of credit by Rural Credit Banks is permissible when reviewed in light of OJK's regulatory policies in the Rural Credit Bank sector. However, regarding the enforcement of such collateral in the form of Girik, OJK has not explicitly regulated the enforcement mechanism.

The OJK only introduces the term "Collateral Taken Over" (hereinafter referred to as "AYDA") in Article 1(9) of POJK No. 1/2024, which is defined as collateral in the form of assets acquired by BPR either partially through purchase at auction or outside of auction based on voluntary surrender by the collateral owner or based on authority to sell outside of auction from the collateral owner. Additionally, there are no legal regulations governing the granting of a *droit de preference* right to BPR over Girik collateral not secured by a mortgage. Therefore, the use of Girik as collateral in credit facilities provided by BPR without utilizing the Mortgage Right institution under the Mortgage Law remains vulnerable and lacks legal certainty regarding the enforcement of such collateral, which is precisely the essence of establishing collateral as an additional security as stipulated in Article 1(22) of the P2SK Law and Article 1(22) of the Banking Law.

Research Implications

The findings of this study underscore the urgent need for regulatory harmonization between the provisions of the Mortgage Law (UU HT) and the practical banking regulations set forth by the OJK, particularly in relation to the use of informal land documents such as Girik as collateral. While OJK regulations implicitly recognize the legitimacy of Girik as a form of collateral in BPR credit practices, the absence of a formal encumbrance process under the HT Law exposes BPRs to significant legal risks, especially regarding enforcement rights in the event of default. This gap highlights the importance of regulatory reform that provides a legal bridge for unregistered land to be systematically converted and

accepted within the collateral framework. Furthermore, the study's results serve as a normative reference for BPRs to critically evaluate their credit risk management practices, and for policymakers to consider establishing a unified legal pathway that ensures both inclusivity and legal certainty in rural credit schemes.

Research Limitations

This study is limited in scope to a normative juridical analysis, focusing solely on the interpretation of existing laws, regulations, and legal doctrines related to the use of Girik as collateral in rural banking practices. As such, it does not empirically investigate the prevalence or success rate of Girik-based collateral enforcement in actual credit default cases, nor does it analyze the perspectives of stakeholders such as land offices, borrowers, or legal practitioners on the ground. Additionally, the study concentrates on national legal frameworks without exploring comparative legal models from other jurisdictions that face similar issues with informal land tenure. These limitations suggest the need for further empirical and comparative research to support more holistic legal reform and policy development regarding informal land documentation in the financial sector.

V. CONCLUSION

Based on the results of the study, the use of Girik as collateral for loans by BPRs is considered administratively valid under OJK policy, but it does not have legal enforceability because it does not meet the provisions of the Mortgage Law (UU HT). Girik, as evidence of an existing right, is indeed recognized in the process of converting it into a right over land that can be encumbered with a mortgage. However, the practice of BPRs using only a power of attorney to sell without undergoing the conversion process or registering the right results in the absence of a collateral security with preferential enforcement power. This implies weak legal certainty and protection for BPRs in the event of default. Therefore, regulatory harmonization between the Land Rights Act and OJK regulations is needed, along with government policy incentives for land conversion to bridge the legal gap for informal documents like Girik so they can be used as valid collateral with enforceable rights. BPRs are also advised to strengthen risk mitigation measures and establish stricter internal credit policies when accepting informal collateral.

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