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Bankruptcy Implementation in Savings and Credit Cooperatives as Instruments for Transformation and Microfinancial Institution Strengthening

Sugeng Sugeng
Universitas Bhayangkara Jakarta Raya
sugeng@dsn.ubharajaya.ac.id

Diana Fitriana
Universitas Bhayangkara Jakarta Raya
diana.fitriana@dsn.ubharajaya.ac.id

Widya Romasindah Aidy
Universitas Bhayangkara Jakarta Raya
widya.romasindah@ubharajaya.ac.id

Kyung Ryul Park
The College of Business at KAIST
park.kr@kaist.ac.kr

Abstract

This article examines the important role of bankruptcy implementation in savings and credit cooperatives as instruments for the transformation and strengthening of microfinancial institutions. The sustainability and development of microfinancial institutions have significant implications for financial access for low-income communities. However, financial risks and operational challenges often hinder the optimal performance of savings and credit cooperatives. In this context, this article highlights the strategic value of bankruptcy concept implementation as a means of transformation and empowerment for microfinancial institutions. The concept of bankruptcy implementation in the context of savings and credit cooperatives demonstrates how concrete steps can be taken to carry out the bankruptcy process. Legal aspects, debt restructuring processes, and asset protection become important focal points in addressing financial challenges. The article also addresses potential challenges that may arise in bankruptcy implementation, such as costs, complexity, and reduced trust from relevant parties. However, through comprehensive analysis, this article identifies mitigation steps that can be taken to overcome these constraints. Referring to real case examples and empirical evidence, this article demonstrates how bankruptcy implementation in savings and credit cooperatives has become an effective instrument in facing financial crises and redirecting institutions toward sustainable growth. Practical implications and the potential expansion of bankruptcy concept utilization in microfinancial institutions are also discussed. In conclusion, bankruptcy implementation in savings and credit cooperatives is not only a response to financial challenges but also a powerful transformation tool for the empowerment of microfinancial institutions.

KEYWORDS: *Bankruptcy, Savings and Credit Cooperatives, Microfinancial Institution Strengthening*

Introduction

In the midst of the growing economic difficulties, microfinance institutions have inspired significant changes in people's lives. In the narrative of economic empowerment, these institutions emerge as heroes playing a central role in expanding financial services and improving well-being. Microfinance institutions play a crucial role in connecting them to the financial world[1]. Not only serving as a gateway to access financing, microfinance institutions also act as providers of financial education that inspire awareness and understanding. These institutions teach how to manage finances wisely, minimize risks, and plan for the future. These are skills that help individuals and families manage their money more effectively, providing strong financial resilience in the face of challenges[2].

Nonetheless, the role of microfinance institutions is not limited to merely expanding financial services. They also create an environment supportive of entrepreneurship and local innovation, providing both capital

[1] Abebe, A., Kegne, M. "The role of microfinance institutions on women's entrepreneurship development". *J Innov Entrep* **12**, 17 (2023). https://doi.org/10.1186/s13731-023-00285-0

[2] Ismail Nawawi, *Pembangunan dan Problema Masyarakat: Kajian Konsep, Model, Teori Dari Aspek Ekonomi dan Sosiologi,* (Surabaya : PMN, 2006): 223.

and support to individuals with creative ideas and enabling the emergence of businesses with sustainable social and economic impact. Alongside their determination to collaborate and build a strong financial inclusion ecosystem, they convey the message that financial access is a right, no longer a dream, and that prosperity can be achieved by everyone[3].

Koperasi Simpan Pinjam (KSP) or Savings and Credit Cooperative (SCC) plays an indispensable role in empowering the economic well-being of communities as a microfinance institution. By providing access to inclusive and affordable financial services, SCC has become a cornerstone for individuals and groups who were previously marginalized from the formal financial system[4]. However, behind this success, SCC's journey towards sustainability and sustainable growth has not been without obstacles. Challenges and barriers scattered along this path have shaped a complex battleground[5]. SCC, which plays a crucial role in bringing about significant social and economic impact, must confront the reality of external dynamics that are often unpredictable. From regulatory changes that can be confusing at times to the need for smart credit risk management in the face of economic volatility, SCC must navigate these challenges with precision and wisdom.

Despite the journey toward sustainability and sustainable growth being filled with obstacles, SCC never stops trying. Every challenge they face is an opportunity to grow and develop, to reach greater heights in advancing the well-being of the community[6]. The development of SCC or microfinance

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[3] Mohamed Arouri, Adel Ben Youssef, Mounir Dahmani, Varatharajan Durairaj, Nakubyana Mungomba. "Microfinance: A powerful tool for human development in Africa. in "One Billion People, One Billion Opportunities" Soucat", A., and Mthuli, N. (eds) (Chapter 26), *African Development Bank*. Tunis, 2014. ffhal-03721790f

[4] Dia Mawesti, Eka Afrina, Maria Lauranti, Anggara Yudha Zunivar, *Inklusi Keuangan Bagi Perempuan: Akses dan Pemanfaatan Kredit Usaha Rakyat Studi Kasus di Kabupaten Lombok Tengah, Kabupaten Indramayu, dan Kotamadya Jakarta Selatan,* (Jakarta: Perkumpulan Prakarsa, 2018): 20.

[5] Lipovetsky, Mark. "Postmodern Crises." Postmodern Crises: from Lolita to Pussy Riot, 2017.

[6] Panga, Faustine P E T E R, and Meshack Siwandeti. "ARCA Book Springer with Vendors' Willingness Paper." Siwandeti, M., Sanga, C., Mfanga, A & Panga, F , 2021. doi:10.1007/978-3-030-68836-3_38.

institutions has indeed created a global phenomenon with significant impacts in various countries. Although the journey of SCC in each country may differ in context, challenges, and characteristics, there are some common developmental patterns found in the history of SCC development worldwide.

Microfinance institutions (MFIs) play a crucial role in empowering the economic livelihoods of communities, especially in areas with limited access to formal financial services. In many regions, particularly in rural and impoverished urban areas, access to formal financial services such as banks is often restricted. MFIs, such as credit cooperatives, community-based financial institutions, and microfinance institutions, are established to provide access to financial services for individuals and small businesses that are often overlooked by traditional financial institutions[7]. Individuals and microenterprises have the opportunity to enhance their productivity. With additional capital, they can expand their businesses, purchase better equipment, and improve their production or services. This contributes to economic growth at the micro level and can have a positive impact on the overall economy. MFIs also facilitate the formation of savings for low-income communities.

One significant impact of the role of microfinance institutions is their contribution to reducing poverty rates. Through access to credit and other financial services, these institutions help individuals and poor communities break out of the cycle of poverty through the development of microenterprises[8]. Credit Unions are one form of microfinance institution that aims to provide financial services to their members, primarily in terms of savings and loans. Credit Unions are established with the main objective

[7] Md Abdullah Omar and Kazuo Inaba, "Does fnancial inclusion reduce poverty and income inequality in developing countries? A panel data analysis". *Journal of Economivs Structures,* (Vol. 9, No. 37): 1-25.

[8] Batara Surya, Firman Menne, Hernita Sabhan, Seri Suriani, Herminawaty Abubakar, M uhammad Idris, "Economic Growth, Increasing Productivity of SMEs, and Open Innovation", *Journal of Open Innovation: Technology, Market, and Complexity,* (Vol. 7, Issue 1, 2021): 1-20.

of assisting their members in overcoming issues related to access to formal financial services. They provide a means for their members to save and borrow with more flexible and affordable terms compared to formal financial institutions such as commercial banks. Each member holds shares in the credit union and has the right to participate in decision-making. This democratic ownership structure ensures that the members' interests are the primary focus[9].

In many cases, SCC promotes the development of the local economy. They encourage the use of local resources, stimulate the growth of microenterprises, and provide access to financial services in areas that may not be reached by larger financial institutions[10]. Although SCC has flexibility in providing financial services, they are also subject to regulations and supervision by local financial or cooperative authorities. These regulations help ensure that SCC operates on sound and fair financial principles. Many SCCs operate with limited resources, whether it's in terms of capital, workforce, or infrastructure. This can affect their ability to provide high-quality services and undertake the necessary innovations for growth[11].

The operation of SCC that does not comply with regulations and rules can risk facing legal actions or sanctions. Therefore, SCC must always ensure that they operate in compliance with all applicable rules. While growth is a desirable goal, SCC needs to ensure that growth is balanced and well-managed. Uncontrolled growth can lead to management problems, liquidity issues, and credit risks. When providing loans to members, SCC must have a good credit evaluation process to reduce the risk of unpaid

[9] Zednita Azriani, Cindy Paloma, Yusri Usman, "The Mapping of Microfinance Institutions for Supporting Sustainable Agriculture Financing in Padang City", *Jurnal Agro Ekonomi,* (Vol. 35 No. 1, Mei 2017): 1-10.

[10] Charles Harvie, Sothea Oum, and Dionisius A. Narjoko, *Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies,* (ERIA Research Project Report, 2010, No. 14), p. 83.

[11] Phillip Toner, *Workforce Skills and Innovation: An Overview of Major Themes in The Literature*, (Jakarta: Centre for Educational Research and Innovation/CERI): 19.

credit[12]. This challenge involves developing effective methods for assessing the creditworthiness of members. Transparency in financial and operational management should be communicated to members. This involves providing clear reports on finances, operating results, and strategic decisions to members. Limited access to capital markets or external funding sources can affect their ability to lend to members. Changes in member needs, family structures, and business trends can affect the types of services and products needed[13].

Bankruptcy is a legal instrument that plays a crucial role in supporting the restructuring and revitalization of financial institutions facing financial difficulties. It is a legal process regulated by laws to address situations where a financial institution is unable to meet its financial obligations. The primary purpose of bankruptcy is to provide a structured and fair legal framework for addressing financial problems and promoting the recovery of the financial institution. When a financial institution experiences significant financial difficulties, bankruptcy provides protection from claims and legal actions by creditors. This provides the necessary time and space for the financial institution to reorganize its obligations and conduct a thorough evaluation of its situation[14].

One crucial aspect of bankruptcy is enabling financial institutions and their creditors to negotiate debt restructuring. This involves negotiations among relevant parties to change debt repayment schedules, reduce the amount of debt, or modify other terms to allow the financial institution to continue its operations more effectively. In the bankruptcy process, the court or appointed entity plays a role in overseeing the restructuring process and financial management of the financial institution in bankruptcy. This ensures that actions taken are in accordance with the law and serve the

[12] Indonesia Infrastructure Finance, *A Strong Foundation for Greater Momentum,* (Jakarta: IIF, 2014): 29,

[13] Maria Maher and Thomas Andersson, *Corporate Governance: Effects On Firm Performance And Economic Growth,* (OECD, 1999): 27.

[14] The Financial Stability Board, *Thematic Review on Out-of-Court Corporate Debt Workouts,* (Basel: FSB, 2009): 22.

interests of all relevant parties. Bankruptcy provides the financial institution with an opportunity to recover financially and operationally[15]. Bankruptcy also provides protection for the assets of financial institutions. This ensures that key assets are not sold or liquidated in a manner that is not in the long-term interests of the financial institution or the parties involved. By providing a legal framework to address such issues, the risk of larger impacts on the financial system can be reduced[16].

Filing for bankruptcy and applying for a Suspension of Debt Payment Obligations (PKPU) against a Cooperative Savings and Loan Association without involving a member meeting as the highest authority within the cooperative can pose significant legal risks not only to the members but also to the officials and supervisors of the SCC, potentially resulting in both criminal and civil legal issues. Cooperatives have a democratic ownership structure where members have the right to participate in important decision-making processes, including significant financial matters such as bankruptcy or PKPU applications. Taking such actions without the involvement of a member meeting can be seen as biased against the members and may infringe upon their rights in making decisions that affect the fate of the cooperative[17]. The Cooperative Law Number 25 of 1992 (Cooperative Law) mandates that crucial decisions, especially those related to changes in status or restructuring, must go through a member meeting with specific quorum and approvals. Violating these procedures can be considered a breach of cooperative law and may lead to sanctions or legal actions[18].

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[15] Insolvency Code of 5 October 1994 (Federal Law Gazette I, p. 2866), as last amended by Article 2 of the Act of 7 May 2021 (Federal Law Gazette I): 850.

[16] Ateeq Ali Md, Salim Al Mamun, "Recovery, Resolution and Insolvency Issues for Institutions Offering Islamic Financial Services", *IFSB Working Paper Series,* (WP-07/12/2017): 66.

[17] Aditya Fadhil Avisena, Dhea Ranissya Diza Liestiara, "Reformasi Hukum Kepailitan Terhadap Koperasi: Pembatasan Permohonan Pailit Terhadap Koperasi Oleh Anggota", *Jurnal Legislatif,* (Vol. 6, No. 1, 2022): 1-14.

[18] Adis Nur Hayati, "Kajian Yuridis Pengajuan Kepailitan Badan Hukum Koperasi oleh Anggotanya Sendiri", *Jurnal Penelitian Hukum De Jure,* (Volume 22 Nomor 2, Juni 2022): 272.

The decision to file for bankruptcy or apply for a Suspension of Debt Payment Obligations (PKPU) is a serious action that can impact the reputation of a Cooperative Savings and Loan Association in the eyes of its members, the community, and business partners. Making such decisions should be carried out with transparency and accountability. Based on the description, this article intends to explore the crucial idea of establishing a legal framework for the implementation of bankruptcy within the context of Microfinance Savings and Loan Cooperatives as part of the transformation of microfinance institutions.

Method

To address the core issue, the type of research used is doctrinal research, utilizing secondary data with an explanatory approach and problem-solving through the relevant statutory provisions (statute approach). The legal materials examined include Law Number 4/2004 on Bankruptcy and Suspension of Debt Payment Obligations, Law Number 25/1992 on Cooperatives, Law Number 1/2013 on Microfinance Institutions, and Government Regulation Number 7/2021 on the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises (Regulation on Empowerment of Cooperatives and MSMEs).

Result and Discussions

Saving and Credit Cooperative as a Microfinance Institution

Saving and Credit Cooperatives (SCC) are one of the forms of microfinance institutions that play a crucial role in supporting financial inclusion and economic empowerment in various countries, including Indonesia. KSPs are owned and operated by members who typically come from the local community. The primary goal of these cooperatives is to provide financial services such as savings, loans, and other financial products to their members[19]. One of the key functions of credit and savings cooperatives is to offer microloans to members who need access to capital for small businesses or other economic activities. These loans often come in smaller amounts compared to those offered by commercial banks. This helps reduce financial inequality and empowers economically disadvantaged communities. As a form of microfinance institution, SCCs contribute to economic empowerment by providing financial support to members to start or expand micro and small businesses[20].

Some credit and savings cooperatives adopt a sustainable financial approach by providing financial education to their members. This helps members manage their finances more wisely and enhances financial literacy. The cooperative principles are internationally recognized and regulated by organizations like the International Cooperative Alliance (ICA). Members voluntarily join the cooperative and can exit the cooperative at any time following established procedures[21]. Democracy is one of the core aspects of cooperatives. Members have the right to participate in the cooperative's decision-making processes, including the election of the board of directors and representatives, as well as participation in member meetings. Each member has one vote, ensuring that decisions are made democratically. Profits or earnings generated by the cooperative can be distributed back to members based on their economic contributions.

Cooperatives have a responsibility to provide education and training to their members as well as cooperative employees. This aims to enhance members' understanding of cooperative principles, financial management,

[19] Tulus Tambunan, "The Importance of Microfinance for Development of MSMEs in ASEAN: Evidence from Indonesia", *Journal of ASEAN Studies*, (Vol. 2, No. 2, 2014): 8-102.

[20] Tarsisius Murwadji, Teguh Tresna Puja Asmara, and Sylvia Kusuma, "People's Business Credit: Omnibus Law and Business Reengineering Community Financial Institutions", *Transnational Business Law Journal*, (Volume 1, Number 1, February 2020): 38.

[21] Daniel Adi Setya Rahardjo, Suwardi, "The Role of Indonesian Credit Cooperatives Towards Strengthening Financial Literacy and Improving Financial Behavior", *Jurnal Ilmiah Akuntansi,* (Vol. 3, No. 1, 2022): 122-135.

decision-making, and the management of their own businesses. These cooperative principles form the foundation of cooperative values that promote cooperation, fairness, and active member participation in cooperative management. Applying these principles helps maintain the democratic and inclusive nature of the cooperative and ensures that it operates for the benefit of its members and the wider community. Implementing cooperative principles can also help prevent the abuse of power or corruption in cooperative management, thus enabling credit and savings cooperatives to function optimally in improving the well-being of their members and supporting local economic development[22]

Although savings and credit cooperatives play a crucial role in financial inclusion, they also face several challenges, including effective risk management, liquidity, and monitoring to prevent misuse. By prioritizing sustainable financial principles and broader financial inclusion, savings and credit cooperatives can play a vital role in economic and social development in various regions. The application of cooperative principles not only helps ensure transparent and democratic management but also serves to prevent the abuse of power or corrupt practices in the management of savings and credit cooperatives[23]. Furthermore, these principles also help create an environment where cooperatives can function optimally to enhance the well-being of members and support local economic development. The principle of transparency is crucial in preventing corruption and the abuse of power. All cooperative members should have access to information about the financial operations and management of the cooperative. Timely and clear financial reports should be provided to members regularly. The implementation of the principle of democratic control by members also means that members have a role in selecting the board of directors and

[22] ILO, *Cooperatives and the Sustainable Development Goals; A Contribution to the Post-2015 Development Debate A Policy Brief,* (Brussels: ICA-ILO, 2015): 5.
[23] World Council, "What Credit Unions Should Know About Sustainable Finance", *World Council of Credit Unions International Advocacy,* (March, 2023): 1-14.

overseeing their performance. A fair and transparent election process is a crucial step in ensuring accountability[24].

Effective supervision can help identify and prevent potential abuses. Savings and credit cooperatives should be committed to financial inclusion by providing affordable and easily accessible financial services to economically disadvantaged communities[25]. The role of the government and regulatory authorities is vital in overseeing the operations of SCC to ensure their compliance with the applicable rules and regulations. The government should have clear and stringent regulations governing the operations of savings and credit cooperatives. These regulations encompass minimum capital requirements, good governance practices, and transparency in financial reporting[26]. Supervisory authorities should have sufficient capacity and resources to effectively oversee and monitor savings and credit cooperatives. This includes monitoring risk management, consumer protection, and regulatory compliance[27]. In addition to supervision, the government should also be prepared to take preventive and enforcement actions if there are violations or misuse in cooperative operations. This includes actions such as asset seizure, imposing sanctions, or legal prosecution if necessary[28].

Collaboration between the private sector and the government can help create stability and sustainability in the microfinance sector, including savings and credit cooperatives. This helps maintain public trust in financial institutions. Collaboration can facilitate innovation in financial products and services that are more suitable for the needs of economically

[24] Jim Anderson, *Enhancing Government Effectiveness and Transparency: The Fight Against Corruption,* (Kuala Lumpur: The World Bank, 2020): 1.
[25] Carlos E. Cuevas, *Financial Cooperatives Issues in Regulation, Supervision, and Institutional Strengthening,* (Washington, DC: World Bank Group, 2018): 5.
[26] Alex Segura-Ubiergo and Abdoul A Wane, *Good Governance in Sub-Saharan Africa Opportunities an Lessons,* (New York: IMF, 2022): 347.
[27] The Association of Southeast Asian Nations (ASEAN), *Handbook on ASEAN Consumer Protection Laws and Regulations,* (Jakarta: ASEAN, 2018): 4.
[28] The Financial Action Task Force, *Guidance for a Risk-Based Approach Effective Supervision And Enforcement by AML/CFT Supervisors of The Financial Sector and Law Enforcement,* (Paris: FATC, 2015): 30.

disadvantaged communities. This includes the development of more affordable microloans and technology-based financial solutions[29]. The government, regulatory authorities, and savings and credit cooperatives can organize financial education programs to help improve the financial literacy of the public. This assists communities in making wiser financial decisions. With well-functioning savings and credit cooperatives, economically disadvantaged communities can more easily access capital to develop micro and small businesses. This can contribute to local economic growth[30].

One of the fundamental principles of cooperatives is the principle of fraternity, emphasizing cooperation, solidarity, and social justice. This aligns with the important values in Indonesian culture and society. Cooperative members have a role in decision-making and share in the profits generated by the cooperative, which, in turn, can enhance their economic well-being[31]. Savings and credit cooperatives (KSP) also play a role in financial inclusion by providing access to financial services to individuals who previously did not have access to the formal banking system. Contribution to the National Economy: Overall, cooperatives have significant potential to make a substantial contribution to the national economy by supporting the growth of micro, small, and medium-sized enterprises (MSMEs), creating job opportunities, and reducing economic inequality[32].

Strong partnerships with the government and other financial institutions are key to SCC's success in achieving financial inclusion and economic development goals. This includes access to additional funds,

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[29] Marta Miranda-García, Freddy Alejandro Oquendo-Torres, “Sustainable finance: The role of savings and credit cooperatives in Ecuador”, *Annals of Public and Cooperative Economics,* (Volume 94, Issue 3): 951-980.

[30] Thorsten Beck, “Microfinance: A Critical Literature Survey:, *IEG Working Paper* (2015/4): 1-59.

[31] Teguh Tresna Puja Asmara, Tarsisius Murwadji, Kartikasari, and Anita Afriana, “Corporate Social Responsibility and Cooperatives Business Sustainability in Indonesia: Legal Perspective”, *Sustainability*, (2023): 1-23.

[32] Robby Maulana and Chaikal Nuryakin, “The Effect of Saving Account Ownership and Access to Financial Institutions on Household Loans in Indonesia”, *Bulletin of Monetary Economics and Banking,* (Vol. 24 No. 3, 2021): 465 – 486.

regulatory support, and access to larger financial markets. SCC not only functions as a business entity but also as an integral part of the community[33]. An effective SCC will have good governance, including transparency in financial reporting and accountability to its members. This helps ensure integrity in their operations. With the appropriate support from the government, regulatory bodies, and the community, SCC can continue to be a crucial pillar in achieving financial inclusion, economic empowerment, and sustainable development goals. Through financial education, cooperation, and a commitment to cooperative values, SCC can play a role in addressing economic and social challenges faced by economically disadvantaged communities[34].

Bankruptcy Setting and Implementation in Savings and Loan Cooperatives

The Regulation and Implementation of Bankruptcy in Savings and Credit Cooperatives (SCC) involve a series of processes and steps that need to be followed to address difficult financial situations or bankruptcy in SCC. Therefore, the application of bankruptcy regulations, which are generally aimed at conventional business companies, can pose obstacles in the case of savings and loan cooperatives[35]. In bankruptcy cases, protecting the rights of members becomes a primary concern, especially concerning their savings. Savings and loan cooperatives often have members who are both depositors and creditors, so it is important to ensure that their rights are respected in the bankruptcy process. There is a push to seek peaceful and alternative solutions that can avoid the detrimental effects of bankruptcy on the reputation and trust of the community in the cooperative.

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[33] Imansyah Hernawan, Bekti Sasongko, Rendra Z. Idris, Djoko Kurnijanto, *Supporting Financial Inclusion for MSMEs through Fintech*, (Jakarta: OJK-ADB, 2020): 20.

[34] Ajisatria Suleiman, Thomas Dewaranu & Noor Halimah Anjani, “Creating Informed Consumers: Tracking Financial Literacy Programs in Indonesia”, *Policy Paper,* (No. 49, 2022): 27.

[35] ILO*, Financing Small Businesses in Indonesia: Challenges and Opportunities,* (Jakarta: International Labour Office 2019): 61.

The bankruptcy legal system in a jurisdiction may not fully align with the needs and characteristics of savings and credit cooperatives, leading to mismatches between regulations and the situations faced by cooperatives[36]. Savings and credit cooperatives often have assets that are difficult to accurately assess, such as emotional ties with members, reputation, or social assets. These assessments can impact the liquidation or restructuring processes in bankruptcy cases. Cooperatives frequently have significant social and economic impacts within their communities. Poor bankruptcy processes can affect local economic stability and threaten the well-being of members. Legal uncertainties related to the interpretation of bankruptcy regulations and the protection of member rights can hinder the effective resolution of cooperative financial issues[37].

Factors that can cause liquidity difficulties include: a) Large withdrawals of deposits. If cooperative members collectively withdraw their deposits in a short period, it can deplete the cooperative's liquidity; b) Funding problems. The cooperative may encounter difficulties in obtaining additional funding, such as loans from banks or other financial institutions, to meet payment obligations. To address default cases, savings and loan cooperatives need to adopt good management practices, strengthen financial management, identify risks, and develop adequate liquidity strategies. Additionally, cooperation with regulatory authorities and other relevant parties can also help in addressing these issues[38]. Default can also occur due to liquidity difficulties, where the cooperative doesn't have enough cash or assets that can be quickly sold to meet payment obligations.

[36] Araujo, Juliana Dutra, Jose M Garrido, Emanuel Kopp, Richard Varghese, and Weijia Yao. "Policy Options for Supporting and Restructuring Firms Hit by the COVID-19 Crisis", *Departmental Papers* 2022, 002 (2022), A001, accessed Sep 3, 2023, https://doi.org/10.5089/9781513593463.087.A001

[37] Jane Kelsey, *The political economy of trade in services agreements,* (New York: Routledge-Cavendish, 2008): 59.

[38] Otoritas Jasa Keuangan, *Digital Finance Innovation Road Map and Action Plan 2020-2024,* (Jakarta: OJK-ADB, 2020): 24.

Liquidity difficulties are a serious issue that can lead to default cases, and it is crucial to address these factors to maintain the financial stability of the cooperative. Cooperatives should have clear policies and procedures for managing their liquidity. This includes regularly monitoring cash inflows and outflows, projecting future liquidity needs, and having contingency plans in case liquidity becomes a problem[39]. This involves seeking various sources of funding such as member deposits, loans from financial institutions, investments, or other funding programs. Identify and manage liquidity-related risks effectively[40]. This involves identifying risks that can affect the cooperative's liquidity and taking appropriate preventive or mitigation measures. Cooperatives should have an emergency plan detailing the steps to be taken in the event of sudden liquidity difficulties. This plan may include actions such as withdrawing from investments, reducing costs, or seeking emergency sources of funding[41].

In extreme situations where a cooperative faces very serious financial issues and there is no other way out, filing for bankruptcy can be the last resort to protect the rights of members and creditors. It is important to remember that the bankruptcy process serves a specific purpose, which is to fairly and transparently organize the distribution of assets and liabilities[42]. To avoid inappropriate bankruptcy cases, cooperatives should prioritize risk management, strict oversight, and careful financial monitoring. Educating members about their rights and responsibilities within the cooperative can also help prevent more serious problems. Additionally, regulators and supervisory authorities should be involved in overseeing and assisting cooperatives experiencing difficulties in finding suitable solutions.

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[39] ECB, "Systemic liquidity concept, measurement and macroprudential instruments", *Occasional Paper Series*, (No 214 / October 2018): 16.

[40] Gayon Hosin, "Operationalizing the New Bank Resolution Framework and Amended Deposit Insurance Legislation—First Mission", *Technical Assistance Report,* (August 2023): 15.

[41] ADB, *Financial Instruments to Strengthen Women's Economic Resilience to Climate Change And Disaster Risks,* (Manila, ADB, 2022): 29.

[42] ACCC, *Debt collection guideline: for collectors and creditors,* (Canbera: ASIC, 2021): 42.

The legal framework for bankruptcy of cooperative entities in Indonesia is based on Law Number 37/2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (Bankruptcy Law). This law provides a general framework for the bankruptcy process, which also includes cooperative legal entities[43]. Under the Bankruptcy Law, the resolution of cooperative bankruptcy cases may involve a family-oriented approach if feasible, but it is also subject to the legal procedures prescribed by the law. Although cooperatives have different characteristics, Indonesian bankruptcy law still applies to all legal entities, including cooperatives. The Bankruptcy Law provides a framework that must be followed in bankruptcy cases, including the procedures for filing bankruptcy petitions by creditors or interested parties. In the bankruptcy process of cooperatives, protecting the rights and interests of members should remain a priority.

Transformation and Strengthening of Savings and Loan Cooperatives Through Bankruptcy Regulations

The Regulation of Financial Evaluation for Cooperatives can help ensure that the evaluation process is conducted correctly, transparently, and in accordance with established standards. Regulatory provisions should also define clear standards for the financial evaluation of cooperatives. This includes the parameters to be assessed, such as debts, assets, income, and expenses. These standards should be detailed to avoid ambiguity, specifying a regular schedule for financial evaluations of cooperatives, for example, annually or semi-annually[44]. Additionally, transparency aspects need to be strengthened by requiring cooperatives to make their financial information transparent and easily accessible to members and stakeholders.

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43 Chamdani, Nobella Indradjaja, Budi Endarto, Suwarno Abadi, Joko Ismono, "Legal Responsibility Of Cooperative Management And Supervisors For PKPU Bankruptcy Decision Number 37/Pdt. Sus-PKPU/2021/PN Niaga Sby", *Asian Journal of Management Entrepreneurship and Social Science,* (Volume 03 Issue 02): 182.

44 Anik Tri Haryani, Krista Yitawati, Arini Wildaniyati, Retno Iswati, "Analysis of Judgement on Cancellation of Bankruptcy of Intidana Saving and Loan Cooperative (Review of the Authority to File for Bankruptcy and PKPU against Cooperatives)", *Jurnal Jurisprudence*, (Vol. 13, No. 1, 2023): 31-45.

The regulations should outline the sanctions or consequences that will be imposed if cooperatives fail to comply with the financial evaluation rules. This may include fines, license suspension, or other legal actions[45].

To maintain cooperatives as healthy and sustainable entities, the implementation of sound regulations is crucial. All stakeholders, including cooperative members, should be involved in this process to ensure that regulations reflect their needs and expectations, as well as to maintain regulatory adaptability to changes in economic and business conditions. The implementation of good regulations is vital for keeping cooperatives healthy and sustainable[46]. Cooperatives are entities that involve various stakeholders, including cooperative members, management, and other interested parties. By involving stakeholders in the regulatory process, cooperatives can more easily adjust regulations to changing economic and business conditions that may occur over time. This allows cooperatives to remain relevant and sustainable in the long term[47].

Cooperatives that involve members in the development of regulations will have a higher level of self-regulation. Cooperative members can play an active role in monitoring compliance with regulations and ensuring that the cooperative operates in accordance with its principles. Involving all stakeholders in the formulation and implementation of regulations is a highly important practice to keep cooperatives strong, sustainable, and member-focused.

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[45] Organisation for Economic Co-operation and Development, *Reducing The Risk of Policy Failure: Challenges for Regulatory Compliance*, (Berlin: OECD, 2000): 31.

[46] Alin Halimatussadiah, *Thinking Ahead: Indonesia's Agenda on Sustainable Recovery from COVID-19 Pandemic,* (Jakarta: LPEM FEB UI_Bappaenas, 2020): 14.

[47] Imaz, O., Freundlich, F., Kanpandegi, A. "The Governance of Multistakeholder Cooperatives in Mondragon: The Evolving Relationship among Purpose, Structure and Process". In: Novković, S., Miner, K., McMahon, C. (eds) Humanistic Governance in Democratic Organizations. *Humanism in Business Series*. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-031-17403-2_10

Financial Restructuring Arrangements for Savings and Credit Cooperatives

Structuring the financial restructuring of cooperatives is necessary to promote transparency in the restructuring process. This includes obligations to inform stakeholders about the restructuring plan and its developments. Regulations should encompass protection against violations of the rights of members and creditors during the restructuring process. This could include provisions on how their rights will be respected[48]. A well-structured regulatory framework will provide a strong legal foundation and a clear framework for cooperatives seeking to undergo restructuring. This will help protect the interests of all stakeholders and ensure that the restructuring process is carried out correctly and in line with cooperative principles and applicable regulations. In the restructuring process, regulations can encourage active involvement of stakeholders, including cooperative members, management, and creditors. Opening effective communication channels with them and listening to their input is essential to formulate plans that consider various perspectives[49].

Restructuring should take into account the social and environmental impacts of the actions taken. Regulations can integrate requirements to ensure that cooperatives adhere to sustainable social and environmental principles. Regulations can also require cooperatives to identify and manage risks associated with financial restructuring. This includes a good understanding of the financial, operational, and legal risks that may arise during the restructuring process. In addition to protecting members and creditors, regulations can also require cooperatives to consider the public interest in the restructuring process. After the restructuring process is completed, regulations can require ongoing monitoring to ensure that the restructuring plan is implemented as planned. This helps prevent deviations

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[48] José Garrido, Chanda DeLong, Amira Rasekh, and Anjum Rosha, "Restructuring and Insolvency in Europe: Policy Options in the Implementation of the EU Directive", *IMF Working Paper,* (WP/21/152): 16.

[49] Widodo Ekatjahjana, Kai Hauerstein, and Daniel Heilmann, *Regulatory Reform in Indonesia A Legal Perspective,* (Jakarta: Hanns Seidel Foundation, 2002): 25.

and violations[50]. A well-structured financial restructuring of cooperatives is a process that involves diverse stakeholders and requires comprehensive and detailed regulations. With sound regulations, cooperatives can better address financial challenges, maintain their integrity, and continue to contribute to economic and social development. Regulations can also allocate resources and support to cooperatives undergoing restructuring, such as access to financial consultants or management training[51].

Conclusion

Savings and Credit Cooperatives (KSP) play a crucial role in empowering communities economically through microfinance services. They provide inclusive and affordable access to financial services, supporting individuals and groups who were previously marginalized from the formal financial system. However, the journey toward sustainability and sustainable growth is not always smooth for KSP. Challenges and obstacles, such as complex regulatory changes, smart credit risk management, and member rights protection, hinder along the way. Microfinance institutions, like KSP, hold a vital role in financial inclusion and economic empowerment in underserved areas by formal financial institutions. They provide access to capital for small businesses and individuals often overlooked by traditional banks.

The application of cooperative principles and sustainable financial inclusion is key to ensuring that KSP functions effectively and can address emerging challenges. This involves not only transparent and democratic financial management but also member rights protection and smart risk management. In the context of bankruptcy, member rights protection and appropriate regulations become extremely important. Good regulatory framework should consider the specific needs of KSP, recognize the crucial

[50] Marc Dobler, Marina Moretti, and Alvaro Piris, *Managing Systemic Banking Crises New Lessons and Lessons Relearned,* (Washington, DC: IMF, 2020): 30.
[51] UN, "Reforms to the International Financial Architecture", *Policy Brief,* May 2023): 6.

role of members in decision-making, and protect their rights. Bankruptcy should be seen as a serious step to be taken after careful consideration, and peaceful and alternative efforts should be considered beforehand.

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