Contemporary Accounting Case Studies

Vol. 2, No. 1, March 2023 Article 9

ANALYSIS OF CREDIT RISK MANAGEMENT IN COOPERATIVE X THAT EMPLOYS THE GRAMEEN BANK SYSTEM

Fauziah Rindang Chairunnisa
Master of Accounting Program, Faculty of Economics and Business, Universitas Indonesia
fauziah.rindang@ui.ac.id

Dr. Dwi Hartanti SE. MSc
Master of Accounting Program, Faculty of Economics and Business, Universitas Indonesia
hartanti_dwi@yahoo.com

ANALYSIS OF CREDIT RISK MANAGEMENT IN COOPERATIVE X THAT EMPLOYS THE GRAMEEN BANK SYSTEM

Fauziah Rindang Chairunnisa* [*], *Dwi Hartanti
Master of Accounting Program, Faculty of Economics and Business, Universitas Indonesia

ABSTRACT

This qualitative study aimed to examine Cooperative X credit risk management based on the Grameen Bank System and the effectiveness of RIMS-based Cooperative Risk Management. Data were collected by conducting interviews, documentation, and observations at the branch office. The findings showed that risk management conducted by Cooperative X has similarities and differences with the Grameen Bank theory, which positively and negatively impacts Cooperative X. The risk management effectiveness received a score of 2, meaning it is repeatable and less effective. Therefore, the risk management designed still needs improvement.

Keywords: Effectiveness, Enterprise Risk Management (ERM), Grameen Bank, Savings and Loan Cooperatives, Credit, Risk Management, Risk and Insurance Management Society (RIMS)

[*] Corresponding Author's Email: fauziah.rindang@ui.ac.id

1. INTRODUCTION

Grameen Bank System is Prof. Muhammad Yunus’s most significant idea and breakthrough. According to Yunus, accessing the banks’ requirements is difficult for the lower classes. Grameen Bank provides loans or financing only to low-income women, unlike initially when they were distributed equally between men and women. This technique gives the poor microcredit without demanding collateral. In 2006, Grameen Bank was selected to receive the Nobel peace prize and several other honors.

The requirements for granting cooperative loans based on the Grameen Bank System are distinctive and disproportionate to banks' general conditions. According to Suharto (1989), the banks’ credit standards require a guarantee and filling out a vast form difficult to read by people in the countryside. Furthermore, customers with greater assets are prioritized to be granted a loan. The Grameen Bank System-Based Cooperative's loan requirements do not require collateral. However, there is no law requiring that arrears in credit and loans be released when members die.

The danger of bad credit or inability to pay from Grameen Bank customers increases due to policy differences. However, the data showed that Grameen Bank's default rate is only 2%, lower than the average banks in Bangladesh. Grameen Bank may demonstrate that its risk management is better than other banks. It has become a good corporation with a payback rate of more than 90% and continues to rise.

Grameen Bank has a high return rate and increased growth, as seen from the outstanding loan data and the number of members in Bangladesh from 2015 to 2019. Outstanding annual growth indicates that the bank is a healthy and expanding organization. Its risk management in minimizing larger risk is no less effective than the risk management of other banks.

Several financial organizations in other nations, including Indonesia, attempted to implement the Grameen Bank System due to its success. This also occurred at Cooperative X, an Indonesian cooperative based on the Grameen Bank System. Cooperative X contains the following information regarding the increased number of clients and outstanding growth from 2016 to 2019. The cooperative sees an annual increase in outstanding growth and number of members, similar to what occurred at Grameen Bank Bangladesh. However, the return rate in Cooperative X has dropped each year. Although it has a return rate exceeding 90%, the trend has decreased yearly from 97.8% in 2016 to 92.3% in 2019, approaching 90%. Credit risk significantly impacts cooperatives (Liliana et al., 2014) and occurs due to ineffective risk management.

An interview with the manager of the risk management division and the leadership of Cooperative X revealed that Cooperative X management considers that using Grameen Bank would not have credit risk problems. The cooperative’s repayment rate has decreased, and risk management is needed to minimize credit risk. Risk management could also help companies achieve their vision, mission, and business goals. Therefore, it is necessary to analyze the effectiveness of the risk management conducted by Cooperative X to achieve its goals and improve its business activities. Risk management's effectiveness is measured using the Risk and Insurance Management Society (RIMS) based on Enterprise Risk Management (ERM). Few studies discussed the risk management implemented by Grameen Bank-based Cooperatives in Indonesia.

This study aimed to examine the risk management practices carried out by Cooperative X. It also sought to analyze the effectiveness of the risk management conducted by Cooperative X with the theory of RIMS.

2. Literature Review

2.1 Grameen Bank System

Grameen Bank System is utilized by microcredit companies in Bangladesh that offer small loans to the poor without requiring collateral. The system gives 96% of women loans because they have more long-term vision. Also, Grameen Bank has better scope to support social and economic status (Tanbir and Sahel 2020). The system was founded on a different concept than conventional banks.

Aisyah A (2020) stated that lenders have high-interest rates and hardly consider the poor due to fear of instability. Traditional lenders use assets for assurance, but Grameen Bank lends without assurance. The banks' ideal and effective loans to the rural poor have reduced vulnerability and poverty in Bangladesh.

2.2 Grameen Bank Risk Management

As a financial institution, the threat of credit risk owned by risk management is important (Yoshia and Stephen, 2021). Grameen Bank needs good risk management to achieve company goals (Tesfaye 2019). Credit risk management establishes and maintains credit rules, standards, and frameworks. It creates, maintains, observes, and reports early warning signals. Additionally, the management monitors the portfolio's quality and trends and anticipates future credit losses.

Iniobang (2005) found that credit risk management is conducted by Grameen Bank in five stages, including:

1. Credit Assessment Process

   The credit assessment process aims to improve the loans' quality, raise returns, prevent bad loans, and increase Portfolio at Risk (PAR). The organization must conduct an assessment and initial verification to pick appropriate members. Furthermore, the staff must follow the Distance of the Center Meeting items. These include conducting credit risk filtering to select other group members, completing the compulsory group training, and conducting feasibility checks by ensuring to meet the Progress out of Poverty Index Border Conditions (PPI). The staff must also perform data verification such as identity, address, income, loan purpose, and previous payment history.

2. Credit Approval Process

   The process starts with permission from the branch manager and authorities. The loan amount granted by members is approved based on their ability or condition. Through the Board of Directors' permission, the credit approval process is handed to the individual executive.
3. Credit Disbursement Process

   The credit disbursement process could be performed after completing comprehensive checks on the borrower's identity. The terms and conditions, as well as interest rates, EMI, insurance, tax, and admin fees, are explained to members. The competent authority then visits the Center Meeting previously agreed upon.
4. Collecting or Returning Credit Process

   Credit or loans could be returned weekly at the Center Meeting with a group of individuals. A shared liability is applied when members cannot fulfill their commitments. It is possible to bill unruly members by visiting business sites.
5. Monitoring and Reporting Credit process

   An effective monitoring process entails giving an early warning signal for at least after seven days of disbursement to business sites. The process also involves awaiting tracking incentives, frequent interactions with borrowers or regular visits. Portfolio quality reporting must be carried out regularly to the top management. The report's contents include an easy-to-read portfolio summary.

2.3 Risk and Insurance Management Society (RIMS)

RIMS is designed, published, and adopted by various international organizations, including RIMS Risk Maturity Model (Dedy S 2022). The use of attributes measures the good acceptance of risk management and the organization’s internal application. The measurement attributes in RIMS comprise seven views, including:

1. ERM-based approach: The level of executive support for the ERM-based approach in organizational culture.
2. ERM-process management: Involves assembling ERM into business processes to identify, assess, evaluate, mitigate, and monitor risk.
3. Risk appetite management: The extent to which one comprehends the relationship between risk and reward.
4. Root cause discipline: The level of discipline applied to determine the origins or causes of problems and link events and processes to promote mitigation, collect data, and manage effectiveness.
5. Uncovering risk: The level of quality and penetration, including risk assessment activities and documenting risks and opportunities.
6. Performance management: The level of exposure to uncertainty or potential deviations from the plan.

7. Business resiliency and sustainability: The extent to which the ERM process's long-term viability is factored into organizational and operational planning. The maturity of the RIMS framework could be summarized into Levels 0-5 for Nonexistent, Ad Hoc, Initial, Repeatable, Managed, and Leadership. This study focused on credit risk as the main risk faced by savings and loan cooperatives.

3. RESEARCH METHODS

This study employed a qualitative strategy using primary and secondary data sources. The data were collected using (Nanik et al. 2020) interviews, documentation, and observation. The two informants interviewed were the Manager of the Risk Management Division and Branch Manager Y. The interview was conducted using online and offline techniques. On March 1, 2022, Zoom Media interviewed Risk Management Division Managers online. A face-to-face interview with Branch Manager Y was scheduled for March 4, 2022, at the Branch Office. The two speakers responded to the 44 questions posed. Additionally, competent speakers and specialists in their disciplines were interviewed to obtain information about the study problem (APPENDIX 1).

The documents obtained are SOP Risk Management and Policy and SOP that support the SOP of Risk Management applied by Cooperative X. Other documents are forms used by Cooperative X in loan transactions. This method was used to help analyze data or materials by recording, summarizing, and studying. The field practice at Branch Office Y designated by Cooperative X was observed for one day to determine the field-based risk management's compatibility with SOP-listed rules. The loan activity was observed before interviews with branch managers to evaluate the adequacy of the interview results and stated policies.

A descriptive data analysis was conducted by explaining or describing the acquired data. First, this study compared the credit risk management practices of Cooperative X with the five credit risk management procedures of Grameen Bank. The conclusion and recommendations were drawn from the comparison's findings. The information gathered from the 42-question interview, documentation, and observation was assessed using the Risk Management Maturity or RIMS to determine the effectiveness of Cooperative X's risk management. The subject was divided into seven themes, each with six questions. This resulted in levels ranging from 0 to 5 regarding Risk Management Division and Branch Management. Furthermore, the final results were combined for interview analysis, documentation, and observation.

The final result was calculated by the average level of the seven topics. The effectiveness of Cooperative X's risk management is seen from the degree of maturity level results. It is declared to be ineffective and effective when the results show levels 0 to 2 and 3 to 5, respectively.

Table 3.1 RIMS Level Effectiveness

Level 0 Nonexistent	Level 1 Ad Hoc	Level 2 Initial	Level 3 Repeatable	Level 4 Managed	Level 5 Leadership
Highly Ineffective	Not Effective	Less Effective	Fairly Effective	Effective	Highly Effective

4. ORGANIZATION PROFILE

Cooperative X is a Grameen Bank-based Cooperative in Indonesia that has existed for more than ten years to assist women with low capital fulfillment. As of March 2022, the cooperative had 761,132 members, with 4,338 staff members, all women. Existing cooperatives have 313 branches in Indonesia, with an outstanding balance of Rp. 2,044,481,676,413.

Cooperative X Credit Risk Management, according to the Operational SOP Version 03.2017, is as follows:

1. Credit assessment process: In credit assessment, Cooperative X conducts regional surveys, holds general meetings for members, forms groups with good members, tests their eligibility to receive financing, and builds their trust and honesty with mandatory group training.
2. Credit approval process: Before credit approval, Cooperative X conducts a Group Validation Test on the branch manager's fifth day of mandatory group training. The branch manager then approves the loan amount to be given by members.
3. Credit disbursement process: During disbursing or providing financing, Cooperative X uses a 4-1 system. Each member is explained the loan amount, the interest percentage, the loan period, and the weekly repayment amount.
4. Credit collection and refund process: Field staff collects members' loans weekly according to a schedule and location determined together with members. During the meeting, members must attend in person. A joint responsibilities system runs when absent members do not provide loans.
5. Credit monitoring and reporting process: Field staff conduct weekly and visit monitoring. Weekly monitoring at the center meeting motivates members and solves their business problems.

6. RESULT AND DISCUSSION

6.1 Application of Grameen Bank Cooperative X Credit Risk Management

The Risk Management Division Manager asserted that Cooperative X has credit risk management by the general systems and regulations that apply to

Grameen Bank. According to Iniobang (2005), Grameen Bank has five stages, including credit assessment, approval, disbursement, collecting or returning credit, as well as monitoring and reporting credit. Table 5.1 compares the application of Cooperative X Credit Risk Management and the Grameen Bank Theory.

Table 5.1 Comparison of Cooperative X Credit Risk Management with Grameen Bank Theory

Grameen Bank	Cooperative X	Similarities/Differences
Process I: Credit Assessment		
Distance of center meeting	Conducted the area survey process	Identical
There are no obstacles or disturbances	Conducted the area survey process	Identical
Filtering members create a group	Conducted during group formation	Identical
Completed the compulsory group training one month	Successfully Completed group training for four days	Difference
Check by ensuring to meet the PPI Border Conditions such as house and income indexes	Check to ensure member by house Index, income Index dan unproductive assets Index	Difference
Data Verification	Conducted the area survey process and checked, ensuring member	Identical
Process II: Credit Approval		
The approved amount of the loan is based on members' ability	The branch manager could reduce the loan after analyzing members' ability	Identical
The permission and authorities of the branch manager	3-layer loan approval from staff to branch manager and branch coordinator	Identical
Process III: Credit Disbursement		
Credit disbursement after obtaining approval from other members	When disbursement requires the approval of other members, the form of signatures on the disbursement form	Identical
used the 2-2-1 method for the first disbursement	Used 4-1 method for the first disbursement	Difference
All terms and conditions and details such as interest rates, EMI, insurance, tax, and admin fees are explained to members	Explained to all members when disbursement has saving taken for mandatory saving 3%, pension saving 3%, and risk fund 1%	Identical
Competent authorities come to Center Meeting	Location disbursement or center meeting is previously agreed upon by staff and members	Identical
Process IV: Collecting or Returning Credit		
Held at the Center Meeting every week	Returning credit is held at the Center Meeting every week	Identical
joint responsibilities system for members who arrears	When members have arrears, joint responsibilities system is enforced for other members.	Identical
Billing for undisciplined members is conducted by visiting the business location	When members cannot pay multiple times, staff conducts home visits accompanied by the head of the center/group	Identical
Process V: Monitoring and Reporting Credit		

Monitoring at least after seven days of disbursement to business sites	Monitoring after three until 14 days after disbursement	Difference
Awaiting tracking incentives like members and making regular visits	Conduct regular visits or billing for problematic members	Identical
When Center Meeting makes frequent interactions with members	Staff can make interaction with members like provides motivation or asking about the continuity or problems of members' business	Identical
Portfolio quality reporting must be conducted regularly	Perform daily reports and related monthly reports	Identical

The analysis shows that the credit risk management practices conducted by Cooperative X have several differences and similarities. In the credit assessment process, the two differences occur during the Group Compulsory Training and Member Eligibility Test. Based on the Grameen Bank Theory, Group Compulsory Training is conducted by prospective customers for more than one month. This aims to determine the customers' seriousness in getting loans and help them understand the rules and conditions of loans at Grameen Bank.

Group Compulsory Training was conducted by Cooperative X for four days, as seen from the LWK attendance list form and materials. The branch manager carries out the UPK or Group Validation Test on the fifth day. The differences in LWK could result in a lack of understanding of prospective members regarding loan terms and regulations.

The SOP of Cooperative X stipulates that a person with at least 50% understanding of LWK material could become a member. This would increase the chances of troubled members that want loans quickly and ignore the selection of trustworthy members. When members have problems, they refuse to carry out joint responsibilities.

The next difference occurs in the house index during Members' Eligibility Test. According to the Grameen Bank Theory, the house index is seen from an area of less than 0.5 acres. In Indonesia, the measurement of the house index is seen from the Floor, Wall, and Roof. This difference occurs because it is more suitable in Indonesia to use the index of walls, floors, and roofs rather than land area. The houses in the countryside are spacious with woven roofs but have no floors. Therefore, the index carried out by Cooperative X is suitable for use in Indonesia to assess the poverty level of prospective members before being given a loan. This is in line with the statement of the risk management division manager that:

> "X Cooperative has credit risk management by the general system and regulations applicable at Grameen Bank adapted to Indonesian culture."

At the time of the loan, two staff members conduct additional Progress out of Poverty Index (PPI), which measures changes in members' economic and social improvement over a certain period. With the PPI, the number of members of Cooperative X after financing experienced economic improvement, even beyond the poverty line.

The second process is credit approval, which has no difference between the Grameen Bank Theory and the one applied by Cooperative X. Both institutions conduct credit approvals previously submitted by members. The results showed that members apply for the loan amount approved by the field staff. The application form is given to the branch manager for approval. Branch managers could reduce loans submitted by members when they analyze their payment ability. The loan form is then input by MIS staff in the system. Approval is also required by the branch manager in the system. A loan exceeding Rp. 10,000,000 requires approval by the branch coordinator in the form and system.

The third process is credit disbursement conducted by Cooperative X and Grameen Bank. This process is conducted at the center meeting, where the place and time have been agreed upon by the staff and members beforehand. During disbursement, approval is required by signing other members' signatures, such as the head of the center and the group leader. The head center must know the person disbursing and the amount received. This is confirmed with admin through telephone regarding the disbursement at the center meeting. The observation results showed that disbursement required the presence of all members, including group leaders and center leaders.

Cooperative X uses the 4-1 method, where group 1 has five members during the first disbursement, which is made by four members. In contrast, the head of the group carries out the disbursement the following week. According to the Grameen Bank Theory, the first disbursement is carried out using the 2-2-1 method. This method means that only 2 of five members in group 1 conduct disbursement in the first week. Two more people conduct the disbursement the next week, followed by the head of the center. This method assesses the new members' ability to pay their loans. When Cooperative X makes the first disbursement with four members, there would be more opportunities for the problematic members to obtain a loan. In the Grameen Bank method, only the first two members obtain a loan, meaning further anticipation is expected.

The fourth process of collecting or returning credit owned by Cooperative X follows the Grameen Bank Theory, where loans are collected weekly at the center meeting. Cooperative X also enforces a joint responsibility system for members unable to pay loans. However, the observation results showed that the mutual responsibility system is not conducive. Cooperative X makes a solution or strategy when members have problems and enter PAR (Portfolio at Risk).

The last process is credit monitoring and reporting, where the difference is in the monitoring time after disbursement. Grameen Bank only conducts monitoring seven days after disbursement. In contrast, Cooperative X conducts monitoring three days after disbursement until the 14th day. The monitoring conducted sooner facilitates a faster determination of the loan’s suitability. Monitoring is conducted at the business location to determine members’ business continuity. The observation results showed that the business's location is not far from members’ houses. The business's activities include selling food, drinks, or essential food ingredients. The staff brings a form for members to sign as proof that the team has carried out monitoring.

The differences and similarities of credit risk management implemented by Cooperative X have various impacts. The monitoring carried out by Cooperative X is faster than Grameen Bank. This is better because it becomes quicker to minimize irregularities in using loans, making members unable to pay. The 4-1 method is also beneficial because many urban members obtain loans faster than rural members. They feel helped by the simple and easy financing, making them diligent in paying off the loans to avoid difficulties in gaining financing again when in need. However, several differences in credit risk management carried out by Cooperative X hurt the company. For instance, LWK or Group Compulsory Training is only conducted for four days. This makes members unable to understand the loan terms, duties, and obligations. Furthermore, people with an understanding of 50% could become members of Cooperative X. This could make Cooperative X choose members randomly without screening. As a result, the chances of problematic members increase because of this. One of Grameen Bank's core successes is building trust and discipline in the customer group. The disbursement model used by Cooperative X in the form of 4-1 could increase the number of problematic members that want a loan on the first disbursement. Therefore, problematic members that cannot pay off loans decrease the Rate of Repayment owned by Cooperative X.

6.2 Effectiveness of Cooperative Risk Management with RIMS Theory

Based on the Enterprise Risk Management SOP, Cooperative X has an ERM framework based on ISO 31000:2009. The risk management division manager stated:

> "We have an ERM framework, which is also stated in the SOP made by risk management."

The method compatible with Cooperative X's ERM is RIMS as follows:

Table 5.2 Analysis Results of the Cooperative X Risk Management Effectiveness

Category	MR Division Level Manager	Branch Manager Level	Combined Analysis Results
ERM-Based Approach (governance)	2	2	2
ERM - Process Management	5	5	2
Risk Appetite Management	2	2	2
Root Cause Discipline	1	1	1
Uncovering Risk	5	5	3
Performance Management	4	4	2
Business Resiliency & Sustainability	5	5	2
Final Level			**2** **Fairly Effective**

Corporate culture supports the ERM-based approach to assess how Cooperative X performs an ERM-based management process. The results of the ERM-Based approach showed that the risk management division and branch manager levels are 2. The risk management division manager stated:

"We have an internal audit. The risk management and finance divisions have been integrated with systems such as MIS. Therefore, I can check in the accounting and operations division. The corporate culture in Cooperative X also has begun to form to support credit risk management. The executives have carried out the development of risk management."

This was also acknowledged by the X branch manager, stating:

"We have these two divisions and integrated finance. The corporate culture has already been formed enough to support risk management. Every year there is a meeting, one of which is the risk management division, explaining the progress for a year with boss."

The observation and documentation results showed that Cooperative X has an internal audit and uses the MIS system. Internal audit performs annual and book audits. The observations and discussions with several branch staff showed that many did not understand the risk management of Cooperative X. It indicates that the level owned by the ERM-based approach attribute is 2, implying low staff understanding. This was seen in the results of the risk identification from the accounting division regarding staff who cannot do a good job. The results showed a high probability of happening with a significant impact on Cooperative X.

Cooperative X considers the ERM process necessary, specifically in credit risk. The risk management division and branch manager are at level 5. This is the highest level, meaning that Cooperative X considers the ERM process necessary. The Manager of the risk management division stated:

> "Cooperative X considers risk management important because Cooperative X is a financial institution that does not have collateral which can be stated to have a greater risk."

The documentation analysis showed that Cooperative X has a risk assessment standard and conducts risk identification and mitigation. However, the risk board branch or senior management rarely performs risk management evaluations. This resulted in level 2 of Cooperative X on the ERM-Process Management attribute, implying poor risk management planning that cannot minimize the credit risk.

Risk Appetite Management shows how Cooperative X understands and determines credit risk appetite. The risk management division and branch manager are at level 2. In line with this, the risk management division manager stated:

> "We do not have a team yet and I am still alone in the risk management division, hence, we use a sampling system to carry out risk evaluations. The risk tolerance itself applies to all branches of the company."

The branch manager corroborated the statement from the risk management division manager:

> "Not at this branch, but at another branch where my friend is doing a risk evaluation. It looks like it uses a sampling system."

This resulted in the average level of 2 for Risk Appetite Management 2. The analysis and documentation also showed that the branch office visited did not perform a risk evaluation because they use a sampling system.

Root Cause Discipline was used to show how Cooperative X understands and measures the problem cause. The risk management division and branch managers are at level 1. Every six and 1-2 months, Cooperative X conducts an emergency measurement, monitoring, frequency, and risk causes. However, it still has inadequate risk management awareness, as explained by the risk management division manager:

> "The staff of Cooperative X is not aware or has low awareness of risk management."

Risk management has been conducted by staff with no understanding and awareness of what they are doing. This is seen by the observation and documentation results and sampling questions, where staff answered that they did not understand. Additionally, findings on ERM SOP at branches in files or unprinted forms showed that the staff's chances of reading the SOP are low.

Uncovering Risk was used to show how companies conduct analysis and documentation regarding risks and opportunities. The risk management division and branch manager results are at level 5. This indicates that Cooperative X is quite good at analyzing and documenting risks and opportunities, as explained by the risk management division manager:

> "We have conducted risk documentation because this helps us control the risks. Overall, mitigation is quite well integrated. Even the evaluation criteria we have, such as the standard risk priority, are the impact, not the probability criteria. Although the risk is rare, the impact is big, and it would be a priority risk. Frequent risk with a small impact is not included in the risk priority."

The branch manager also stated the documentation as follows:

> "We conduct risk documentation where every month the branch manager sends a problem report to the head office with the problem that must be resolved, the cause, how to solve it, and the target to be resolved."

The risk identification report documentation results from each division showed that several risk mitigations are less suitable. Mitigating the risk of bad loans (PAR) due to multiple credits involves conducting the UK and presidential analyses. This mandatory process still finds problematic members due to borrowing from several institutions without paying. Mitigation should involve checking with other members to avoid false answers. When the planned mitigation is carried out, it would result in the identified risks being unresolved and creating new risks, making the Uncovering Risk owned by Cooperative X at level 3.

Performance management was used to show how Cooperative X has implemented its vision, mission, and strategy to utilize the risk matrix. The risk management division and branch manager results are at level 4. This means that Cooperative X has indicators and measures for each achievement. It considers planning and strategy essential and integral to the ERM process. The risk management division manager stated:

> "We have a framework of indicators and measures of achievement. The company's strategy and planning are by the ERM framework. This is done to minimize the risk that occurs. Cooperative X employees also have a high enough awareness of the success of achieving goals."

Cooperative X has different management performance evaluation standards for each position. The risk management division manager stated:

> "We have evaluation standards for each different level of position."

The branch manager also acknowledges this by stating:

> "It seems that the standard for measuring performance evaluation in each position is not the same. They have their standards in every position".

The observation results showed that the Performance Management owned by Cooperative X is at level 2. This is evidenced by the low ERM-based approach and Root Cause Discipline. When risk management awareness is low, the understanding of achieving goals is also common. This is because risk management ensures a smooth operational process to accomplish company goals, such as providing loans to the poor as business capital.

Business Resiliency and Sustainability are other topics with a high level. This topic was analyzed to assess how Cooperative X integrates operational planning and implementation. The risk management division and branch manager results are at level 5. This indicates that Cooperative X is sufficient to integrate operational planning and implementation. The risk management division manager explained:

> "Digitally, Cooperative X has been integrated in the transaction process. For the meeting, we cannot because it is contrary to the Grameen Bank principles and taking into account risk avoidance, because it will impact the company's sustainability."

The branch manager also stated:

> "At our branches, digitization has been implemented using tablets for operational transactions. The risk aversion is sufficient to consider the future of the company. Because Cooperative X continues to see opportunities for broader planning, it wants to be even better in the future."

The observation results showed the absence of staff awareness and mitigations for the identified risks. The company lacks an extensive plan for its business continuity, making the Business Resiliency and Sustainability level 2. The effectiveness of risk management analyzed using RIMS enters level 2, meaning it is less effective. Staff with no understanding have low awareness of risk management and could make errors in assessing members to be given loans. The staff could also manipulate monitoring results after loan disbursement. This would increase members' inability to pay and cause troubled members to be still given loans. Furthermore, members could misuse loans for other purposes and not for business. This would increase bad credit risk, requiring good risk evaluation and mitigation. Therefore, Cooperative X should improve to achieve a higher risk management effectiveness. It needs to increase staff awareness and understanding of the company's credit risk management. Cooperative X should also improve risk evaluation to be conducted by more branches yearly. Furthermore, it needs to improve risk mitigation to ensure that the identified risks are appropriately resolved without causing new risks. This would result in effective risk management to increase repayment and support business growth and continuity.

7. CONCLUSION AND RECOMMENDATION

Cooperative X used credit risk management as the Grameen Bank Theory. Grameen Bank has five stages of the process but also has differences. In the credit assessment process, Cooperative X conduct Group Compulsory Training (LWK) for four days, while Grameen Bank carries out the process for one month. Furthermore, Cooperative X uses a 4-1 system in the first disbursement process. Grameen Bank uses a 2-1 design for the first disbursement. The differences and similarities of credit risk management implemented by Cooperative X have positive and negative impacts. The negative impact is increased chances of problematic members gaining a loan. Members' failure to pay off the loans would decrease Cooperative X's Rate of Repayment.

Based on 42 questions from seven topics, the analysis, documentation, and observations results, Cooperative X enters level 2, meaning it is less effective. Therefore, it should make improvements to achieve higher risk management effectiveness. First, Cooperative X should increase staff awareness and understanding of the company's credit risk management. It should also improve risk evaluation to be conducted by more branches yearly. Additionally, Cooperative X needs to improve risk mitigation to resolve the identified risks appropriately without causing new risks. This would result in effective risk management that supports business growth and continuity and increase the repayment rate. However, this result is only based on one branch office because this study was conducted during the Covid-19 pandemic.

ACKNOWLEDGEMENT

The author is grateful to Ms. Dwi Hartanti as a supervisor and to Cooperative X, specifically the risk management division and Y branch manager, who have helped provide data and time to complete this study.

REFERENCES

Abdul H. (2016). Analisis Komparasi Manajemen Risiko Pada Cooperative Syariah di Kabupaten Biyolali. *Jurnal Ilmiah Ekonomi Islam*. Volume 02 Nmor 03.

Aisyah A. (2020). The Success of Rural Microfinance at Grameen Bank in Bangladesh. *Global Scientific Journal*. Volume 8 Issue 7.

Deddy and Agustinus. (2022). A Study on the Maturity of Risk Management Using the RIMS Risk Maturity Model Approach in Investigating Activities as Law Enforcement Agencies for Corruption. *Budhapest International Research and Critics Institute-Journal (BIRCI-Journal)*. Volume 5 Nomor 2.

Grameen Bank. “Graphical data” accessed https://grameenbank.org/, on the date July 2021

Iniobong Wilson Akpan, 2005. "The Grameen Bank Model of Microcredit and Its Relevance For South Africa." Thesis. South Africa: Rhodes University

Josiah dan Stephen. (2021). Credit Risk Management and Efficiency of Savings and Credit Cooperative Societies: A Review of Literature. *Journal of Applied Finance & Banking.* Vol. 11, 99-120.

Liliana, Adrian dan Mirela. (2014). Risk Management in Cooperative Banks from the 21st Perspective. *Knowledge Horizons - Economics.* Volume Nomor 1, PP 60-62.

Nanik, et al. (2020). Analisis Manajemen Risiko Pembiayaan Mikro 25 iB di Bank BRI Syariah KCP Setiabudi Bandung. *Jurnal Iqtisaduna.*Volume 6 Nomor 2.

Patrizia dan Bernd. (2018). What Makes Cooperatives Successful? Identifying the Determinants of Their Organizational Performance. *Journal of Wine Economics.* Volume 13, Number 3, Pages 282-308.

Yosia and Stephen. (2021). Credit risk Management and Efficiency of Savings and Credit Cooperative Societies: A Review of Literature. *Journal of Applied Finance & Banking*. Volume 11 Nomor 1.

Yunus, Muhamad. 2007. *Creating World Without Poverty: Social Business and The Future Of Capitalism.* United States: PublicAffairs™.

Sugiyanto dan Anggi. (2018). Implementing Risk Management and Its Effect On Good Cooperative Governance and Success. *Journal of Indonesian Economy and Business.* Volume 33, Number 3, 2018, 243 - 256.

Tanbir and Sehel. (2020). Performance Evaluation and Impact of Grameen bank on Social Development and Women Empowerment in Bangladesh. *International Journal of Social and Administrative Sciences*. Volume 5 Nomor 1.

Torban, Tesfaye Kefale. (2019). Assessment of Credit Risk Management in Micro Finance Institutions: A Case of Adama Town MFIs, Ethiopia. *Srusti Management Review.* Vol-XII, Issue-I, PP 42-53.

APPENDIX

Appendix 1. Interview Questions

No.	Questions	LEVEL
	ERM-Based Approach:	
1	Does your company have an integrated internal audit, risk management, and financial activities division?	0
2	Does the company culture support credit risk management? Does it run consistently?	1
3	Does the executive carry out the risk management system development regularly?	2
4	Does each branch of the company understand risk planning?	3
5	Does each level of position understand the credit risk management carried out?	4
6	Has risk management been implemented in all branch areas of the company, and is it well coordinated?	5
	ERM-Process Management:	
1	Does your company consider the risk management process important?	0
2	Does it have standard criteria in risk assessment?	1
3	Does your company identify and mitigate credit risk? How often is it done?	2
4	Do risk boards and senior management actively evaluate risk management?	3
5	Does the risk management division understand the applied risk management process?	4
6	Are periodic reports conducted to measure ERM progress? Done by whom?	5
	Risk Appetite Management:	
1	Do you understand the risk appetite and risk tolerance required by the company?	0
2	Have you developed the risk appetite and risk tolerance required by the company?	1
3	Does your company have an ERM framework?	2
4	Does your company have a risk evaluation structure and measure risk tolerance in all branches of the company?	3
5	Is risk appetite taken into consideration in the ERM process steps? Is risk tolerance always evaluated as a decision to improve and measure results?	4
6	Have the duties and authorities of each position level in carrying out risk management been appropriately communicated?	5
	Root Cause Discipline:	
1	Does your company understand the causes of the risks that occur?	0
2	Are your company's risk indicators and objectives set within the framework and not the core of the ERM process?	1
3	Is risk management awareness in your company low or high?	2
4	Does your company's ERM framework include identifying, measuring, and monitoring the causes of risks?	3
5	Does your company identify, measure, and monitor the causes of risks?	4
6	Does your company know the risk occurrence frequency and make improvements?	5
	Uncovering Risk:	
1	Does your company do documentation regarding risks?	0
2	Does each company branch get complete and compliant information regarding risk management?	1
3	Is risk mitigation well integrated?	2
4	Does your company have evaluation criteria? Are the evaluation criteria a priority risk standard that is followed up?	3
5	Has each division managed the risk register properly?	4
6	Does your company carry out risk management reports regularly and on time?	5

	Performance Management:	
1	Does your company have a framework of indicators and measures for achieving each company's goals (vision)?	0
2	Do the company's strategy and planning have an integral part in the ERM process?	1
3	Is the ERM process important to your company's planning and strategy?	2
4	Does every employee have a high enough awareness of achieving company goals? What are examples of employees doing in achieving company goals?	3
5	Is the risk management process also used as an evaluation of management performance?	4
6	Does each level of position have the same standard of measure in evaluating management performance?	5
	Business Resiliency & Sustainability:	
1	Does your company integrate digital terms in every operational process? Especially in Covid-19 conditions like today.	0
2	Does risk aversion consider the sustainability and sustainability of the company?	1
3	Does your company communicate the problem well? How was the response made?	2
4	Does your company carry out broader operational planning for the sustainability of the company?	3
5	Does your company always make mitigations after evaluating management performance?	4
6	After making mitigation, your company index priorities objectively.	5