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Financial relaxation of Islamic rural banks and private schools resilience during COVID-19

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ABSTRACT

The pandemic of COVID-19 has increased tensions between Islamic rural banks and private schools. Many parents lose their jobs and are thus unable to pay their children's school tuition. Private schools, on the other hand, are heavily reliant on tuition and bank financing. As a result, student enrollment falls, school finances suffer a deficit, many parents and students lose trust in the school, and some students may wish to drop out. This research aimed to investigate the effectiveness of financial relaxation on schools' resilience. It was qualitative research with a case study approach focusing on the causal relationship of an Islamic rural banks with a private school affected by the COVID-19 pandemic in Muhammadiyah 1 Yogyakarta Vocational High School and Islamic rural banks' *Bangun Drajat Warga* (BDW). The research finding reveals that BDW Islamic rural banks has implemented financing relaxation three times to ease the school's burden and it has resulted in an improvement in the school's resilience by as much as 33%. Besides, due to the high ideological commitment and adaptability of Muhammadiyah 1 Yogyakarta Vocational High School as well as the success of gaining parents' trust regarding online teaching and learning, there has been an increase in the school tuition by as much as 80%. Although though the COVID-19 epidemic is coming to an end, it is still important to study the financial flexibility of Islamic rural banks and private schools in similar crises in the past to better prepare for the future.

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1. INTRODUCTION

Over three in most parts of the world, the COVID-19 pandemic has caused multidimensional crises which encompass economic, social, and even religious crises [1], [2]. The government has established policies like to suppress the virus spread through closures of markets, schools, tourist destinations as well as worship places which cause severe crises in the realm of micro and macro [3]. The economic impacts of the crisis are the increase in poverty due to the high unemployment rate and the bankruptcy of several businesses [4]. As a consequence, people's purchasing power has significantly dropped and people are unable to make ends meet [5]. All economic sectors face similar challenges, except those focusing on COVID-19 prevention or medication [6]. The pandemic has also impacted many educational institutions all around the world starting from primary to higher education [7]. Many schools have been closed in an attempt to stop the spread of the virus forcing students to resort to online learning with the application of unfamiliar technology [8]. The students have to study at home, and they face the challenge of poor internet connection.

The challenges of distance learning and job loss negatively affect school enrolment. Job losses due to interaction restrictions that require people to work at home and school enrollment declined due to social distancing policies that inevitably have an impact on daily life [9], [10]. Further, the poverty and unemployment rate increase lower the parents' ability in paying school fees and affect the school's chance of surviving [11]. Schools are expected to balance their expenses and the prosperity of the teachers and staff. Therefore, it is significant for them to adapt in a crisis to survive [12]. Schools with financial obligations with Islamic rural banks face greater challenges [13]. To provide educational facilities and pay for the operating fund, some schools have to propose a loan to Islamic rural banks. To pay the loan back, they rely on school tuition. Before the pandemic, they can commit to the responsibility. Many even thrive as seen by the good quality of the school facilities. However, the COVID-19 pandemic has failed some schools to pay for bank loans as there is a decrease in the tuition earned. This is the impact of poverty increase as well as the high unemployment rate.

For Islamic rural banks, this new poverty causes economic risks as they can no longer commit to their financial responsibilities [11]. As several private schools like Muhammadiyah schools rely heavily on school tuition, this pandemic has affected them greatly. There is a decrease in the school earning causing the school fails to perform their duties. To survive, the school management has to quickly adapt to this new situation and propose financial relaxation. The researchers believe that it is important to research financial relaxation as well as school abilities to survive during the COVID-19 pandemic. This case study focuses on SMK Muhammadiyah 1 Yogyakarta which is granted a loan from *Bank Pembiayaan Rakyat Syariah Bangun Drajat Warga* (BPRS BDW). BPRS BDW is an Islamic rural bank owned by Muhammadiyah catering to serve the financial needs of schools, particularly Muhammadiyah schools. The funds are commonly used to build and provide school facilities, as well as fund the operating expenses. The bank has provided relaxation to as much as 36% clients including Muhammadiyah schools.

This study seeks to obtain the formula for the impact of financial relaxation and school strategies to survive through the help of the Islamic rural banks' to be implemented at other schools facing a similar challenge. The COVID-19 pandemic has increased the risks of Islamic rural banks, particularly their financial risks [14]. Such risks may lead to other risks such as liquidity, financial yield, and reputation [15]. If uncontrollable, Gai and Ielasi [16] argued that financial risk can cause bankruptcy and that the most significant indicator of financial risk is a financial problem. A financial problem is defined as clients' inability to commit to their partial or whole financial responsibilities [17]. Dahir *et al*. [18] conducted a study on the influence of financial risk on other risks and the findings reveal a positive impact. It means that Islamic rural banks' management is expected to be able to control the risk so as not to affect other risks.

In general, companies face higher challenges in line with the decline of the economy which causes financial risks to increase [17]. Such increased risk is directly proportional to clients' economic condition [19]. In short, the pandemic has caused an increase in poverty and unemployment rate which in turn increases financial risk. Islamic rural banks' s experience a similar situation as there is a high request for a loan and yet at the same time, the number of earnings decreases. This results in liquidity contraction. The ability of Islamic rural banks' s in controlling liquidity is essential to help businesses survive. Many Islamic rural banks' clients fail to pay their loan instalment which cause a decrease in banking business, for instance, decreases on bank instalment, deposit, and earning [20]. Such decreases worsen banking risks as financial risks are considered as major risk. It means that it will cause other risks such as liquidity, financial yield, reputation as well as strategic risk. Economic risk experienced by Islamic rural banks' clients directly affect the performance of the banks, i.e., a decrease in earning and instalment [20].

Further, the banks also face financial yield and liquidity risks [15]. If uncontrolled, in the long run, the performance of Islamic rural banks might decline and eventually they will lose clients' trust [14]. A decline in public trust will worsen the problems faced by Islamic rural banks' s such as their relationship with the authorities, the government, and the people in general. In short, there is a systemic risk. In Financial Services Authority regulation number 11/POJK.03/2020 on economic stimulus during the COVID-19 pandemic, it is mentioned that clients affected by the pandemic are granted relief in paying the instalment and considered as clients with good credit. The said instalment is meant as clients' ability to pay for the profit sharing or margin or partial instalment depending on their affordability.

The COVID-19 pandemic has continued to spread and caused a massive economic impact [3]. The first phase of financial relaxation barely drives economic growth and Islamic rural banks’ clients’ ability in repaying the loan instalment. Due to this situation, the relaxation which is supposed to end on 31 March 2021 is extended to 31 March 2023 in line with *Otoritas Jasa Keuangan* Regulation (POJK) No 17/POJK.03/2021. During the pandemic, many schools face multidimensional educational challenges not only regarding the teaching-learning process but also their financing [8]. Long-distance or online teaching is chosen to accommodate teaching necessities [13]. However, at the elementary level, it is considered ineffective. Many even suggest that it has caused some negative effects as students are not ready to follow online learning.

The pandemic has also caused an economic decrease among students' parents and it eventually decreases school funding [9]. There have been delays to provide school facilities which hinder the teaching-learning process [7]. Schools with loan experience worse cases as they have instalments to pay. Survival skill during crises such as in the occurrence of a pandemic or natural disaster is influenced by leadership capacity [21]. A study reveals that a headmaster holds a significant role in motivating school staff. They can encourage and motivate school stakeholders [22]. In the case of non-profit groups such as schools, foundations, and the like, the organization's sustainability is influenced by its ability to adapt to the new situation [23]. Adaptability here includes all strategic changes and management which are more adaptive and flexible so that things can be done smoothly [24]. Besides, the management team is required to implement business efficiency so as to allocate many resources more effectively [25]. Limited resources as a consequence of economic decline should encourage companies to build team solidarity so that they can survive the crisis or grow in a difficult situation [26].

In the scope of the macroeconomy, national economic stability and economic growth might be disrupted. The Indonesian government through the Financial Services Authority *(Otoritas Jasa Keuangan/*OJK*)* is responsible for controlling economic risks particularly in the banking industry including Islamic rural banks' by issuing regulation No 11/POJK.03/2020 on National Economic Stimulus known as Countercyclical of Corona Virus impacts [27]. It is later extended through POJK No 17/POJK.03/2021. The POJK regulation is the government's effort in controlling economic risk, particularly on its impact on banking performance whose clients are affected by the COVID-19 pandemic. Further, the main goal of the regulation is to optimize banking performance, particularly in intermediate function which is to help stabilize the economy and support economic growth. The POJK regulates instalment relaxation for clients impacted by the pandemic to make sure clients good scores and to maintain the quality of the bank's productive activity report. The regulation signals that banks are responsible to control any risks during the pandemic. Such risk management includes: First, banks are allowed to set debtor criteria deserving relaxation facility. Banks are also permitted to issue their own regulations on the criteria of clients affected by the pandemic in regard to the business scale as well as the business type. It is compulsory for the banks to conduct an assessment of business prospects and client financial resilience in the future.

Second, banks need to start making a backup on impairment loss after the first relaxation which the debtors are unable to pay. The debtors are given the chance to obtain relaxation up to March 2023. During this period, banks are not required to determine their backup on impairment loss due to financial relaxation. Third, dividend distribution is done at the end of the year, and it has to consider the sufficiency of the ratio balance. The owners of Islamic rural banks' stocks are expected to prioritize the survival of the bank's business units. Therefore, the calculation of dividends has to consider banks' capital in facing any risks. Fourth, banks must conduct stressful tests on the impact of relaxation on the capital and liquidity of the Islamic rural banks. The regulation will be issued at the end of the relaxation period in March 2023. The considerations on financial relaxation implementation for sharia and conventional banks include no limitation on restructuration frequency during the stimulus period. However, banks are expected to analyze and provide an appropriate scheme in line with the debtor's situation, special treatments for small micro and middle-sized enterprises (*Usaha Mikro Kecil dan Menengah/*UMKM) without considering the loan ceiling, and relaxation implementation by Islamic rural banks are excluded from credit restructuration. Among them is not requiring the banks to report loss acknowledgment due to credit restructuration [27]. Technically, the POJK regulation might be implemented by Islamic rural banks' s through many different schemes. One of the implementations is by extending the instalment time so that the debtor has to pay smaller instalments. Moreover, banks are allowed to decrease the interest, and the profit sharing or margin. Banks might also reduce principal arrears and provide new financing facilities in line with debtors' needs.

2. RESEARCH METHOD

This research involves a case study that aims to provide detailed elaboration on the research object. The case study is chosen as the research subject has a unique causal relation and it can hardly be found somewhere else. The setting of the research is at the Muhammadiyah 1 Yogyakarta Vocational High School (SMK) and BPRS BDW. The school is one of the clients of BDW Islamic rural banks granted financial relaxation due to COVID-19. The research is conducted at SMK Muhammadiyah 1 Yogyakarta and BPRS BDW located in Bantul, Yogyakarta, Indonesia. Despite the differences, both manage to cooperate well. BPRS BDW is an Islamic rural bank with its business characteristics seen in all of its business activities. Meanwhile, the school is an educational institution with its special characteristic, i.e., a non-profit institution. The cooperative approach of the two is presented on a financing contract relying on the principle of mutualism. The official of BPRS BDW acting as primary data sources are the president director and business director responsible for funding and solving financial problems either due to the COVID-19 pandemic or other causes. Meanwhile, the source of primary data at the school is the headmaster.

The data were obtained through interviews and document analysis of the Islamic rural banks. In-depth interviews were conducted using interview guidelines to make sure that the results are in line with the research objective. Meanwhile, the secondary data were taken from Islamic rural banks' financial documents either the ones officially published by the OJK or through the official website of BPRS BDW. In addition, the documents on financial risk mitigation documents are obtained from the management staff of BPRS BDW. The data were analyzed using a qualitative descriptive approach specifically with three triangulation models, i.e., data reduction, data display, and data verification. During the reduction phase, due to the massive amount of obtained data, the data were then grouped based on similar interests or other similarities. The data were then displayed or presented in tables to provide a clear description and show distinct differences from the other data. Meanwhile, in the verification or conclusion withdrawal phase, other than implementing the triangulation model, the verification is also done based on the existing theories so that the results support the theories. Further, if it is possible, it is meant to find a new theory as well.

3. RESULTS AND DISCUSSION

The findings are presented in two major parts: the first is the BDW relaxation policy for clients during the COVID-19 pandemic and second, the ideological commitment of SMK Muhammadiyah 1 Yogyakarta to maintaining and improving school finance during the COVID-19 pandemic. The first problem associated with BDW relaxation policies for clients during the COVID-19 pandemic is important because the pandemic has significantly impacted various aspects of life, including the economy. Declining revenues and rising costs financially impact many businesses and individuals, so relaxation policies can help ease their burden. However, BDW relaxation policies can also long-term impact the company's financial health. They must be implemented carefully so as not to harm the company in the future.

The second problem related to the ideological commitment of SMK Muhammadiyah 1 Yogyakarta in maintaining and improving school finances during the COVID-19 pandemic is important because education is one of the sectors severely affected by this pandemic. Schools experienced a decline in income for various reasons, including declining student numbers and cancellations of events. Therefore, schools must take proactive measures to ensure the sustainability of their operations and the availability of the resources necessary to provide quality education to students. Taking into account the ideological commitment of SMK Muhammadiyah 1 Yogyakarta to safeguard and improve school finances, the actions taken should take into account these values to ensure the continuity of quality education for students in the future. Furthermore, both BDW and schools are Muhammadiyah-owned enterprises that commit to developing each field and strengthening ideology as the foundation of business entity sustainability.

3.1. The policy of bank syariah *Bangun Drajat Warga* during COVID-19 pandemic

Islamic rural banks' BDW belongs to the Muhammadiyah organization in the area of Yogyakarta Special Region which facilitates funding for micro and small enterprises as well as other charity businesses of Muhammadiyah. This bank has significantly helped many clients, particularly in providing financial assistance. The developed financial products include capital funding, investment, as well as consumer, needs fulfilment. The director of BDW mentioned:

> *For BDW Islamic rural banks, providing financial aid to schools has been a strong social mission as it has significant effects.* (an interview with the president director of BDW Islamic rural banks)
> *The improvement of educational facilities will eventually expand learning opportunities. This has led to BDW Islamic rural banks' decision to set schools as strategic partners in the bank's business plans. Muhammadiyah schools are given special treatment regarding the services as well as selling prices as the cooperation has been done for a long time and both have benefited each other. Such treatments are specifically on selling prices or profit sharing* (an interview with the president director of BDW Islamic rural banks)

The data from the interviews are supported by the book reports of BDW containing information that financial assistance provided for Muhammadiyah school is as much as 26.9% of the total financial portfolio with the lowest non-performing loan. It is under the average percentage of a non-performing loan, which is 2.6%. It changes as the COVID-19 pandemic hits and increases financial relaxation to 40% at the end of 2020 and decreases to 36% at the end of 2021. There are 22.4% of Muhammadiyah schools that are granted financial relaxation. The policy on financial relaxation at BDW Islamic rural banks refers to OJK regulation No 11/P.OJK.3/2020.

Financial relaxation is designed as an effort to sustain clients' business in regard to national economic stimulus despite the high financial impact on management performance (an interview with the president director of BDW Islamic rural banks). The high rate of financial relaxation is due to the high rate of non-performing loans so the management is expected to control the risks [28]. It can be seen from the decline of the Islamic rural banks' rentability rate even though the non-performing loan performance seems small. Table 1 shows financial relaxation conducted at BDW Islamic rural banks' up to June 2022.

The data in Table 1 show that the highest sector to obtain financial relaxation is trade as much as 33.4%, followed by the construction sector as much as 26.7% and education as much as 22.4%. Based on the interview with the president director of BDW Islamic rural banks', it is revealed that the relaxation is done three times or more as long as it is granted during OJK's approved period. The main consideration of granting the policy is the clients' ability in paying the instalment. It is also found that SMK Muhammadiyah 1 Yogyakarta as one of the BDW Islamic rural banks' clients is given financial relaxation three times (based on an interview with the headmaster). The management team of Islamic rural banks approves the relaxation request due to social and moral responsibility to help their client survive.

Table 1 BDW Islamic rural banks' financial relaxation based on sectors (June 2022)

Sectors	Outstanding amount	Percentage (%)
Service	1,243,670,775	2.74
Consumptive	1,566,621,695	3.45
Construction	12,142,210,339	26.75
Convection	992,177,324	2.19
Culinary	358,586,252	0.79
Education	10,204,818,374	22.48
Trade	15,175,202,092	33.44
Farming	1,259,455,452	2.77
Microfinance institution	2,444,009,306	5.38
Total	45,386,751,609	100

Source: BDW Islamic rural banks, 2022 (processed data)

3.2. The ideological commitment of SMK Muhammadiyah 1 Yogyakarta regarding the school's financial recovery during COVID-19 pandemic

SMK Muhammadiyah 1 Yogyakarta and BDW Islamic rural banks are two among thousands of Muhammadiyah charity units with high ideological commitment. Therefore, when one experiences difficulties, the other one is there to help. As SMK Muhammadiyah 1 Yogyakarta faces financial challenges, BDW Islamic rural banks provides needed financial assistance. In this regard, the headmaster of SMK Muhammadiyah 1 Yogyakarta states:

> "*Prior to COVID-19 pandemic, the school is in debt to BDW Islamic rural banks' as much as Rp. 2,000,000,000 to extend school area as much as 1,000 m2. After the pandemic hits and the loan hasn't been fully paid, the school has to propose another loan again to improve the quality of our online teaching and learning. We even have to assign several teachers to visit students experiencing connection problems. Thank God the improvement on our online teaching and learning during the pandemic has attracted the sympathy of students' parents to continue paying for the school fees. Slowly but surely, in the first semester after the pandemic starts (the first 6 months), the school finance has increased by 80%.*" (Interview with the headmaster of SMK Muhammadiyah 1 Yogyakarta on Friday, 15 July 2022).

The interview results with the headmaster of SMK Muhammadiyah 1 Yogyakarta show that the ideological commitment of the headmaster has encouraged them to propose a new loan during such a difficult time. It shows the headmaster's creative skills during a tough time [29]. The courage to assign teachers to visit the students facing internet connection problems is considered a new approach during the pandemic [30]. Besides, the reinforcement of online learning during the COVID-19 pandemic indicates the courage of the headmaster in reforming academic policies [31].

The school financial assistance granted by the Islamic rural banks has been approved by the Muhammadiyah organization. The grant is given as the headmaster is believed to have an ideological commitment and meet the administrative requirements. However, the Islamic rural banks' makes sure to refer to the applicable standard procedures so that no regulation is violated. Any violations of the issued standard procedures can negatively affect the bank's performance as they are under the supervision of the OJK. It is important for Islamic rural banks to keep its ideological commitment or integrity in line with the school's appropriateness to obtain financial facilities. SMK Muhammadiyah 1 Yogyakarta has been given some financial assistance even before the COVID-19 pandemic hits. Therefore, the loan eligibility standard refers to the school's condition during a normal situation. The school earning relies on school fees. This is why the school's finance is highly influenced by the number of students (based on an interview with the headmaster of SMK Muhammadiyah 1 Yogyakarta).

Other than to provide education operational needs, the money is also used to pay for instalments. Factually, students at private schools coming from low-class families have challenges in paying their school fees [32]. Another fact reveals that there are as many as 11% of alumnae who are still indebted to the school (based on an interview with the headmaster of SMK Muhammadiyah 1 Yogyakarta). The COVID-19 pandemic started in March 2020 has highly affected the school's finance as the main earning, i.e., the school fee has drastically declined. The amount of earnings decline is as much as 82% in the first year and in the second year, the earning starts to increase. The decline itself is caused by some parents' earning loss due to the pandemic and online learning requires some additional funding. Such financial difficulty has encouraged the headmaster and teachers to conduct an intensive approach towards students' parents so that they commit to paying the school fees.

Although the earnings decline, they manage to make sure that the teachers and staff are well paid as during the pandemic, life gets harder and there are other necessities to meet. Savings on electricity, consumption budget, and equipment usage has been done to cut the school's expenses. In addition, financial relaxation is granted by proposing an instalment payment delay and/or reduction on the amount of instalment each month. Islamic rural banks' financial relaxation is given to clients meeting certain requirements and it is adjusted to the factual conditions as well as the long-term prospects. In addition, it is possible to grant the relaxation several times if after the first one is given, the client is unable to pay the loan. One of the research samples reveals that there is this one school that is granted financial relaxation three times due to the school's finance. There is even another school that can only pay the profit sharing and the principal payment is done after everything returns to normal.

School financial relaxation has significantly helped the continuity of the teaching and learning process and it has lower risks as most Islamic rural banks' s implement the *Murabaha* scheme. The positive impacts are due to, first, there is an improvement or balance in the amount of credit and debit. Therefore, the headmaster and teachers are able to focus on the improvement of online teaching and learning as well as the prevention of COVID-19 spread. Second, the school management is able to pay teachers and staff salaries so that they stay loyal and committed to their job. Third, the parents are not burdened by the obligation to pay school fees during a hard time. This results in the parents' positive perception of the school management, and they are committed to paying 80% of the school fees in the second year.

4. CONCLUSION

The COVID-19 pandemic has negatively impacted school earnings as the income from school fees drop as much as 80% at the beginning of the pandemic. As things get better, the parents are able to pay for the fees. SMK Muhammadiyah 1 Yogyakarta, which is granted financial relaxation by Islamic rural banks, even up to three times, has a better chance of surviving the pandemic. As for BDW Islamic rural banks, relaxation is a strategy to maintain financial performance as non-performing well is better reported. Further, such relaxation is the Islamic rural banks' commitment to supporting the government in preventing the clients' financial risks and accelerating national economic recovery. BDW Islamic rural banks has granted the school financial relaxation three times and it will end in March 2023. At first, the decline in school finance disrupted the teaching and learning process. Therefore, relaxation has significantly helped the school.

Other than getting relaxation, the school management has also tried to cut some expenses on electricity bills, stationaries, and other necessities. In regard to teachers' and staff's salaries, the management decides not to cut the wage as the number of class meetings is not reduced. There has been only a change in the teaching platform, from offline to online. In addition to financial strategy, the school management has also done some other things to make sure the teaching-learning process runs well. They are able to adapt to external changes. Further, the role of leadership is essential during tough times. The school management has implemented ideology enforcement and built intensive communication with all stakeholders. The school provides transparent information which the parents respond well. As a result, they are committed to paying for their children's school fees which in turn help increase the school's earning.

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