

PRESS RELEASE

Forum Kajian Pembangunan (FKP) Webinar

“Reviving the Economy: The Impact of Public Activity Restrictions and the Digital Activities of MSMEs”

Jakarta, 26 October 2021 — Public activity restrictions during the COVID-19 pandemic triggered a contraction in the economy and labor market in Indonesia. The SMERU Research Institute (SMERU) conducted a series of studies to measure the impact of the restrictions on the economy and employment conditions at the provincial level in Indonesia. The findings show that almost all provinces have experienced direct impacts of the restrictions on their economy.

Bali and Special Region of Yogyakarta are the two worst-hit provinces

“Even though Bali and Yogyakarta were impacted the worst, we don’t see a long-term effect of the pandemic on the economy. This shows that the economic recovery in both provinces is going as planned,” said Hafiz Aryanto (SMERU researcher).

Meanwhile, Papua and West Papua are the two provinces least affected by the restrictions.

Transportation, accommodation and restaurant, and company services are the three worst-hit sectors

The findings also explain why the economy of Bali and Yogyakarta was hit the hardest. Both provinces have relied heavily on the tourism sector. The disruption to this sector automatically affects the accommodation and restaurant, as well as transportation sectors.

“Even though they are directly affected and are hit the worst, we don’t see a long-term effect on the transportation, accommodation and restaurant, and company services sectors,” added Hafiz Aryanto.

Hafiz also said that there was a significant correlation between the decline in mobility and labor indicators at the *kabupaten* (district) level. Regions experiencing a drastic decline in mobility tended to see a rise in the unemployment level, a drop in the workforce participation, and a decrease in working hours and pay.

The government needs to focus on recovery efforts for sectors that have been hit the hardest by the activity restrictions

“Based on the findings, region-based activity restrictions could be applied, with sufficient support given to the affected sectors to lessen the impact of the restrictions on the economy and employment conditions,” Hafiz Arfyanto explained.

Moreover, seeing the downtrend of COVID-19 cases and the fact that not all workers can work from home, activity restrictions should not be held too frequently. To support economic growth in general, the government needs to focus on helping the worst-hit sectors in their recovery efforts.

Meanwhile, micro-, small-, and medium-scale enterprises (MSMEs) have been playing a role as the backbone of Indonesia’s economy, absorbing a large number of workforces. Nevertheless, during the pandemic, the sector is also impacted by the government’s restriction policies. Business owners have tried various strategies to survive in the gloomy economy during the pandemic.

The COVID-19 pandemic accelerates the adoption of digital technology, especially by the micro- and small-scale enterprise (MSE) sector

During the pandemic, more MSEs jumped on the internet-based technology bandwagon. "However, the internet use has not really helped MSEs achieve better outcomes, especially because demands have also dropped during the pandemic," said Veto Tyas Indrio (SMERU researcher).

Internet use improves the probability of MSMEs to stay afloat during the COVID-19 pandemic

"From our estimates, MSMEs that use the internet during the pandemic enjoy around 10.5% possibility of surviving, compared to MSMEs that do not use internet at all in the two-year period. This supports our findings that the use of the internet has helped MSMEs survive this crisis," said Veto.

Social media are the platform MSEs use the most to capitalize on digitalization

Of various internet platforms adopted by MSEs, social media and email are the platforms with the biggest potential that allow MSEs to enjoy much of what digitalization has to offer. One of the social media that most MSEs use is WhatsApp, whose use has continued to rise.

Equal distribution of internet-related infrastructure is imperative so that more MSMEs can access the internet and enjoy the fruit of digital economy

Aside from the internet-related infrastructure, improving digital skills and literacy is also important. With improved digital skills and literacy, business actors can use the internet as one of the alternatives to help them survive during the COVID-19 pandemic.

Support from the government is needed to improve the understanding of business actors about the importance of the internet for running their business. The support can be in the form of training to make virtual catalogs and organizing online exhibitions.

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The speakers' presentation slides can be downloaded at <https://smeru.or.id/en/content/reviving-economy-impact-public-activity-restrictions-and-digital-activities-msmes>.

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