

# Strengthening Village Economy during Pandemic

Adelia Oktarina<sup>1\*</sup> Febrina Elia Nababan<sup>2</sup>

<sup>1,2</sup>Ministry of Villages, Development of Disadvantaged Regions and Transmigration

\*Corresponding author. Email: [adelia.oktarina@kemendes.go.id](mailto:adelia.oktarina@kemendes.go.id)

## ABSTRACT

Pandemic situations today emerge as challenges for the economy both at the national and village level in Indonesia. The village has diverse resources, for instance, natural resources, local authority, local wisdom, and village funds. This privilege of the village in Indonesia is an essential strength for economic development during Covid-19. This study is significant to formulate strategy and policy to strengthen the village economy. The objective of study is to analyze opportunities for village economic recovery during and after the Pandemic. The study used qualitative methods with descriptive analysis. The result showed that village products like agriculture, industry, and other small and medium enterprises products should be promoted and marketed by community groups such as village-owned enterprises (BUM Desa). Marketing digital technology is one of the urgent instruments to improve village product marketing. Furthermore, the village government needs to be concerned about digital literacy and human resources. The conclusion is that the village has varied potential, including resources, village-owned enterprises, and local authority to strengthen rural village development.

**Keywords:** *village, economy, digital literacy*

## 1. INTRODUCTION

The Covid-19 Pandemic has harmed the national economy. Nationally, the Pandemic has caused economic contraction until -5.32 percent year on year [1]. Due to large-scale restrictions to deal with COVID reaching -5.5%, the Pandemic also weakened investment by up to 8.6%, which had an impact on business activities. On the export side, the decline also occurred to reach -11.7% [1]. In the long term, the Pandemic could lead to a deep recession triggered by lower investment, erosion of human resources due to loss of jobs and schools, and fragmentation of global trade and supply linkages (World Bank, 2020).

The village economy also feels the impact of the Pandemic, for example, in the agricultural sector. The farmers find difficulty in distributing the tilth: decreasing demand and high production cause lower agrarian product prices. The plantation sector is also affected. The decline in international prices of palm oil, rubber, etc. impacts on the decrease in the income of farmers engaged in this sector. In the tourism sector, Pandemic has completely paralyzed tourism business activities. Villages involved in this sector lost their income. This condition proves that the impact of COVID 19 not only affects urban areas.

Such efforts have been made by the government to overcome the negative impact of the Pandemic. The quickstep taken by the government is to increase the consumption of the village community by providing cash transfer assistance (BLT) and other social assistance. Village funds are one of the sources of BLT distribution funds. Through this assistance, the community is expected to maintain their purchasing power, which has an impact on the village economy. Apart from BLT, village funds are used to procure necessities for residents of affected villages, medical materials/equipment, and other activities under applicable regulations.

On the other hand, these policies only apply as short-term policies. Village Fund, APBD, and APBN cannot support the needs of the community during the Covid-19 Pandemic. Villages have to take such a strategy in economic recovery. In this situation, villages have such problems when they have to get some economic expansion, especially in marketing their products. They are infrastructure, an imbalance between production and demand, poor planning and market research, and logistic and transportation costs (Zabiullah & Devaraju, 2017). Other village marketing problems are underdeveloped markets, media for rural communication or promotion, logistics, storage, holding, and transportation [2].

Therefore, a strategy to strengthen the economy in the village is needed. This study aims to identify the strategy to strengthen the village economy during the Covid-19 Pandemic. This study learns the approach to get economic recovery from some villages in Indonesia. This chapter shows the reason of this study. The next chapter shows what the literature says about this study. The third chapter discusses the methodology used. The fourth chapter is the result, and the last chapter is the conclusion.

**2. LITERATURE REVIEW**

**2.1 Economies of Scale Theory**

George J. Stigler [3] said that the theory of the economies of scale is the theory of the relationship between the scale of use, a properly chosen combination of all productive services, and the enterprise's rate of output.

This concept helps the enterprise identify its business to maximize profit.

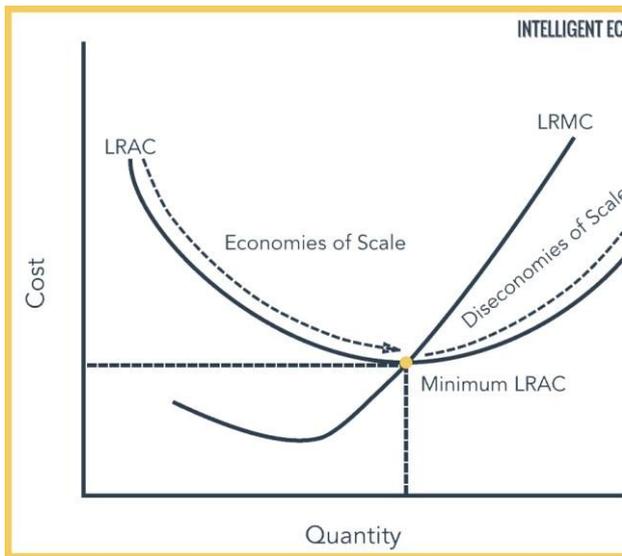


Figure 1. Economies of Scale

Graph Source:  
intelligenteconomist.com

The graph shows a maximum quantity of products that a producer should get to minimize the average cost. It means that a producer has to produce until that point so they can get maximum profit.

In the village enterprise, there are three examples of economies of scale that can be used, such as transportation and small business collaboration. In the case of a village far from the market or center of the economy, the ride will

be a problem. Farmers or small businesses have to pay more to take their products into the economy's market or center. The lower number of products that they can produce will increase transportation costs. Producers need to make more products so they can reduce the transportation cost.

In the other case, small businesses have more cost than bigger firms. The small business has a limitation in producing the product. It means there are more costs that they need to pay. Collaboration is a solution to push the cost that small businesses have.

**2.2 Village Owned Enterprise (BUMDes)**

A village-owned enterprise was an institution whose all or part of the asset comes from the village and community welfare-oriented. BUMDes has a function as a motor driving the village economy, as a business institution that generates Village Original Income (PADes), and as a means to accelerate the improvement of rural communities [4].

The aims of BUMDes are mentioned in Permendesa PDTT No.4/2015:

- To improve the village economy
- To optimize Village assets to be useful for village welfare
- To increase community efforts in managing the economic potential of the village

Developing plans for inter-village business cooperation and/or with third parties

1. creates market opportunities and networks that support the needs of public services citizens
2. Opens up employment opportunities
3. Increases the welfare of society through improving public services
4. Increases village economic growth and equity
5. Increases Village community income and original village income

**2.3 Digital economy**

Digital technology is one of the instruments that can encourage economic growth. Gruber et al. [5] discuss cellular telecommunications' contribution to annual GDP growth and find a positive growth of 0.11% for low-

income countries and 0.20% for high-income countries. Minges [6] has found that in low- and middle-income countries, a ten percentage point increase in broadband penetration accelerates economic growth by 1.38 percentage points more than in high-income countries and more than for telecommunications services. McKinsey & Company [7] estimates that a 10 percent increase in broadband household penetration gives a country's GDP a boost ranging from 0.1 to 1.4%. Oxford Economics (2016) estimates that increased mobile internet penetration will create an additional \$ 58.1 billion in GDP and one million new job opportunities by 2020 in Southeast Asia.

A 2009 study by management consultancy Booz & Company [8] found that "broadband 10% higher penetration in a given year correlates with 1.5% greater workforce productivity growth over the next five years. The report by Booz & Company also suggests that countries at the top tier of broadband penetration have shown GDP growth of 2% higher than countries at the bottom. "In China, every 10% increase in broadband penetration is thought to make an additional 2.5% GDP growth. In Thailand, wherein 2010 only about 3% of households had broadband and 12% of individuals, it is estimated that if broadband is promoted, it could increase by 2.4% per percent to a growth rate GDP countries (ITU, 2011).

### 3. METHODS

This study used a research mix method with locations in 35 villages throughout Indonesia. The choice of location is determined by purposive criteria capitalized technology infrastructure (electricity and internet networks are good) in supporting the village's economic development.

### 4. RESULTS AND DISCUSSIONS

Pandemic Covid-19 harms the economy of the national economy. Statistic Indonesia or BPS (2020) shows that 5.32 percent YoY and 4.19 QoQ decreased Indonesian economic growth in the second quarter of 2020. It means that there was an economic contraction after Pandemic Covid-19 in Indonesia.

There are some reasons that Indonesia got an economic contraction, one of which is work termination. BPS [1] showed that 2.52 percent of employees got dismissal because their company collapsed, and 18.34 percent got no pay. Most of the employees who got dismissed and should work from home go back to their village to minimize cost. This condition will be good and bad at the same time for the village. On the other hand, villages got their problem in the economy, such as social distancing, constituting the market restriction. The other impacts are high transportation cost, limited access to the market, etc.

Villages have their way of solving these problems. The method was different in each village. Generally, villages use two common ways to recover their economy in Pandemic, such as small business collaboration by optimizing BUMDes and the digital economy.

#### 4.1 Small Business Collaboration by Optimizing BUMDes

In Indonesia, each village has its featured product. That product may be an agricultural product or others, like tourism, culture, culinary, etc. Villages need to manage this product so that they can contribute to village income. BUMDes was a way to manage the village featured product. There are some roles that BUMDes can play in managing the village featured product, such as:

- (i) BUMDes as the producer of the featured product; and
- (ii) BUMDes facilitate the small business collaboration.

This study will focus on BUMDes to encourage small business collaboration. The sector mostly affected by Pandemic Covid-19 is product marketing. There are some problems in village marketing that we have discussed previously, such as infrastructure, the imbalance between production and demand, poor planning and market research, and logistic and transportation costs (Zabiullah & Devaraju, 2017). Other problems in Indonesian village product marketing, especially in Pandemic are markets, media for promotion, storage, holding, logistics, and transportation. All these problems arise because the business scale of the producer was small. The business scale has implication to the production cost they need in production.

##### 4.1.1 Markets

The scale of business has implication to the market. The small business has a limited kind and quantity of products. So it is hard for it to sell the product in a bigger market. In Indonesian villages, producers are micro, small, and medium enterprises. They sell the products in their village market or other villages. Access to the market was more challenging because of the Pandemic.

##### 4.1.2 Media for promotion

Limited scale business makes producers have a limitation for the promotion of products. The promotion cost was so high for a few products. That is why villages have a limited advertisement for the product.

##### 4.1.3 Storage and holding

Small businesses in villages have a limitation in some parts of the business, like storage and holding. This problem was a reason why they hold their production into a small quantity.

**4.1.4 Logistics and transportation**

Some villages are too far from the center of the economy, and the transportation access is so limited, or the access is weird. Small businesses with small quantities of products they need to sell in the center of the economy will need high transportation costs. The problems above show the economies of scale of small businesses in villages if they do the production and marketing the products by itself. Small business collaboration by BUMDes was a solution for the small business in villages to get the economies of scale. When the small business receives a partnership, they can reduce the cost they need to market the products. This collaboration will make the marketing of village featured products more efficient and effective. In small business collaboration by BUMDes, the products can be collected so that products can be marketed in a bigger market than the village market, by using media to promote the products and minimizing the logistics and transportation cost.

More than that, BUMDES, as a village economic institution, plays an essential role in the recovery of the village economy during the Covid-19 Pandemic. To encourage healing due to the Covid-19 Pandemic, BUMDes must innovate in its activities through organizational transformation, increasing partnerships, and developing new business strategies with economies of scale. To achieve this, BUMDES can take advantage of digital technology in the village.

This condition is reflected on the BUMDesma Pancamandala, which is in the Pancamandala Rural Area, Tasikmalaya. BUMDesma Pancamandala collects agricultural products from the community to be marketed through e-commerce. Agricultural and plantation products such as lemongrass, cardamom, turmeric, ginger, and other spices are sold through BUMDesma. BUMDesma collects the products of the community and then carries out product marketing through e-commerce. Transportation cost, promotion skill, and limited market were the problems that Pancamandala had before the collaboration made. Collaboration established by BUMDesma helps farmers reduce their cost and get more return from their product.

**4.2 The use of technology in the village**

The use of digital technology in the village is a solution to the problem of lengthy and inefficient distribution chains and supply chains. Digital technology in villages can also support production activities in villages through increasing online trade. INDEF results (2019) show the importance of digitizing data and using internet access in villages. Based on Podes (2019) data, 20,489 villages already have 4G

access, 31,874 villages have 3G access, and 9,496 villages have 2G access. Although most villages have internet access, their utilization in the economic sector has not been maximized. The analysis of the use of digital technology in 35 villages in Indonesia can be described as follows.

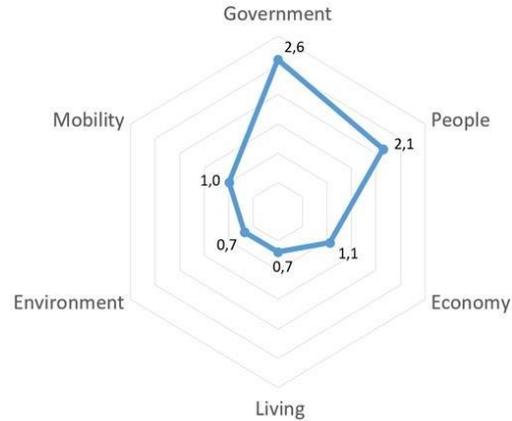


Figure 2. Utilization of Digitalization in 35 Villages Across Indonesia

Figure 2 shows that most villages have digitalization in government. They developed a digital system to collect data and some administration services. The village apparatuses use most of the systems. This system makes administration services more effective and efficient. Although digitalization for the government is quite good, the development of digitalization to increase human resource capacity and improve the community's economy must also be done.

Figure 2 shows that digitalization has not been utilized maximally to develop human resource capacity, both village officials and communities in the village, economic development, environmental management, improvement of community life, and community mobility. Digitalization needs to be developed in human resources to improve the quality of villagers. High quality of villagers can drive economic improvement, ensure the continuity of life and a healthy environment, and encourage village mobility facilities.

The Covid-19 Pandemic is a momentum to increase the use of digital technology that is not only for supporting the village government. In supporting the recovery of the village economy during the Covid-19 Pandemic, the use of technology can be carried out by marketing innovations in the potential products existing in the village from both nature (tourism) and agricultural products crafts. Villages can create simple applications or websites to market village products. This is like what has been done by

BUMDes Au Wula in Detusoko Barat Village, Detusoko District, Ende Regency, that creates the concept of "Dapur Kita." This concept emerges because it is motivated by a problematic situation amid the Covid-19 Pandemic. All economic activity is paralyzed while the farmers enter the harvest season. Farmers have difficulty marketing their products because the market is closed to prevent the spread of Covid-19. "Dapur Kita" sells vegetables based on the WhatsApp store. Every potential customer will be connected via the WhatsApp number of the Bumdes Au Wula manager. The concept developed by Bumdes Desa Detusoko can be an example and inspiration for other villages in efforts to improve the economy amid the Covid-19 Pandemic.

The other way to improve the economy with digitalization is through e-commerce. The village, working hard to develop its own website or application, can make collaboration with e-commerce to sell its products. BUMDesma Pancamandala is a sample for this use of digitalization.

In the tourism sector, virtual tourism becomes a new style of tourism that was viral during the pandemic.

A village can make a short movie showing the tourist attraction they have. The movie is developed in a good way so it can show all the attractions and make the tourist feeling they are there. With that media, the village shows the souvenir they have in the place and sell online. This experience will be a solution for the village to get the tourist in virtually and to promote its tourist attraction. The tourist joining virtual tourism will come in real time when the pandemic has ended.

To increase the use of digital in the village to encourage economic recovery, this must also be supported by the capacity of human resources, both the village apparatus and village communities. The village apparatus should have good digital literacy to map and to promote the village potentials. The village communities, as the subject of the village economy, should have good digital literacy to improve the quality of village products that will be sold. The ability and digital literacy of society in the use of technology is a crucial element in economic recovery through technology. Marketing innovation with the application carried out will be useless if it is not supported with the ability of utilizing technology.

To overcome this, what can be done is the village government to provide IT training to the community. Besides, it is crucial to involve the community in the development of digitalization in the village. The use of space is used as a gathering place, such as a village hall facilitated by wifi. This hall can be used as a place where people can access wifi for their needs and socialization to the community. This space can also be a place to increase community skills and knowledge of ICT. This space will also be a social control to the community in used IT.

## 5. CONCLUSION

Most of the villages in Indonesia have felt the impact of COVID, especially in the economic sector. The most problems for the village were markets, media for promotion, storage, holding, logistics, and transportation. These problems come because the business scale of village producers was small. The small scale of business will increase the cost, especially in marketing the product. They need to improve the business scale. Pandemic condition and limited capital are the problems inhibiting the business expansion. Small business collaboration and use of digitalization in economic activities were the solutions to get the economies of scale. Small collaboration by BUMDes will improve the number of products, so that the cost they need in marketing products will be kept down. The use of digitalization in marketing is another solution most villages used. It can promote the product on e-commerce, so the product gets a bigger market than the village market. The cost of promoting using e-commerce is cheaper than that using other advertising media.

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