

# Digital Economic Challenges in the Informal Sector of Palembang City

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**Abstract.** This research analyze the digital economy challenges in the informal sector. The method of quantitative and qualitative descriptive approaches, In the quantitative method, data collection was carried out through surveys in 18 sub-districts 384 respondents. Meanwhile, in the qualitative method, interview guides were employed from 18 informants. Furthermore, the data obtained was analyzed using data reduction, data display, drawing conclusions, and verification. The main research result indicated that the digital economy is vital in increasing income and ease of transaction processes. The potential for the e-commerce industry was enormous in the Palembang city. People living in major cities made digital e-commerce technology part of their lifestyle to meet their living needs. From the data obtained, the main factor as a challenge in the Palembang city was the lack of customers. It showed an indication of tight competition. Competition between sellers was a challenge in the informal sector, especially in utilizing the digital economy in Palembang city. In short, Based on the field results obtained, it shows that the type of business is relatively homogeneous So that it has a positive impact, such as being able to increase income by utilizing digital technology like today.

## 1 Introduction

Humans constantly innovate in developing technology. Technological developments in the 5.0 era have impacted various aspects of human life in the economic, social, cultural, and environmental fields. Technological developments in the economic sector influence producers to interact with consumers, creating new business opportunities. New businesses that have developed due to technological advances are spread evenly throughout the world regardless of the type of business. The rise of businesses is utilizing social media as a promotional medium to develop their businesses, from minor to industrial scale. The development of the digital economy has become a strategic phenomenon in the development of global economic progress. Indonesia is no exception.

The development of the digital economy has become a phenomenon that has a very strategic role in the development of global economic progress. Indonesia is no exception. Indonesia ranks number 4 in the world after India, China and America [1]. Becoming a promising place for the development of the digital economic market. If we look at the characteristics of the population, they like to take advantage of technological advances in terms of social media, transportation and shopping. In 2021, 62.10% of Indonesia's population will access the internet [2]. The role of digital technology is crucial for economic change and progress, as well as improving the quality of the economy in Indonesia, especially in the informal sector. It is also a solution to improving people's welfare and economic

and social problems. The role of the digital economy for Indonesia is critical and can provide new hope for economic transformation, which is predicted to continue to develop over time. This progress in the digital economy is supported by essential elements, especially in the informal sector.

Through the digital economy, various applications are produced that offer convenience to the people. The digital economy is developing rapidly and has enormous potential, but it has been unable to encourage equitable (inclusive) economic growth across all levels of people. However, with digital technology producing new media via the Internet, new business ways have increased development in the informal sector.[3] project that the potential for electronic commerce (e-commerce) in Indonesia will attain 55 billion up to 65 billion dollars by 2022.

Palembang is one of the major cities on the Sumatra island and has excellent potential in the e-commerce industry. E-commerce is not just trading goods and services via the internet but can also connect other related industries, including providing delivery or logistics services and telecommunications providers. People living in major cities make digital technology and e-commerce part of their lifestyle to meet their living needs. The Palembang city must, indeed, be able to utilize technology and e-commerce in daily life.

Based on field observations in Palembang City, progress in digital technology has not been evenly distributed due to the lack of public understanding of digital financial literacy. It has been proven that there were still people who paid for water, gas, and electricity

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through the official payment counters that had been provided. People should be able to pay online using cash replacement applications such as Mobile Banking, DANA, OVO, LINK, Shopee, etc. Several food stalls did not want to provide non-cash payment media or utilize existing technology, and some businesses did not take advantage of technological advances to expand their marketing net.

In this research, researchers wanted to identify the informal sector economy in Palembang City and analyze the digital economy challenges in the informal sector. The research contribution was that the researchers attempt to educate the public about the benefits of technological developments to develop their businesses and change the economy as a “new face” that can facilitate people to carry out various transactions.

## 2 Research methods

The research method was a combination of quantitative and qualitative descriptive approaches with a case study approach [4]. In the quantitative method, data collection was carried out through surveys. Meanwhile, in the qualitative method, interview guides were employed. For the quantitative method sample, 384 respondents were selected using accidental sampling techniques from informal sector workers in 18 sub-districts in Palembang. This sample size was calculated using the Krejcie and Morgan formula for the total population of informal sector workers, namely 329,392 people. Meanwhile, in the qualitative method, 18 informants were selected using a purposive sampling technique based on the informants' willingness to take part in in-depth interviews. Furthermore, frequency analysis was used for quantitative data analysis. In contrast, qualitative data processing and analysis referred to Miles and Huberman's theory, including data reduction, data presentation, and drawing conclusions and verification.

## 3 Results and discussion

### 3.1 Research location

This research was conducted in Palembang City, South Sumatra Province, Indonesia. Palembang City was chosen as the research area because it is the capital city of South Sumatra Province and a center of economic growth. In addition, Palembang is also an industrial city and a trading city with the largest number of business actors in the informal sector in South Sumatra, Indonesia. Palembang is known as the oldest city in Indonesia. The research location is shown on the map below.

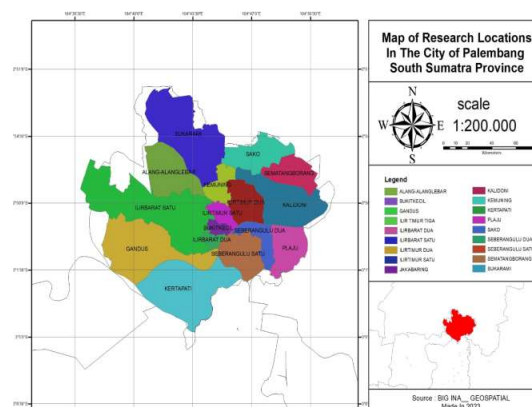


Fig. 1. Research location

### 3.2 The Use of Online Platforms in the Digital Economy Era

Globalization is the era of the digital economy, which significantly contributes to improving income and convenience in the transaction process, especially in Palembang City. In this digital era, economic transactions can simplify customers to process transactions. The digital era opens trade doors between countries and regions that have not been optimally connected. When the digital era has opened, the doors to trade between countries worldwide are no longer limited. A business actor will have many opportunities to develop his own business independently. The number of competitors in each type of business continues to increase, the strategy is necessary in business. It is important or main content that must be prepared and formulated with careful steps to face business competition. Therefore, a business strategy is an important or main content that must be formulated and prepared carefully to face business competition. According to [5], several strategies must be employed, including (1) technology utilization; which must be utilized optimally in business strategy to achieve goals; (2) social media; in Indonesia, many social media users spread in all regions, such as Twitter, Instagram, Facebook, WA, Line, etc. Therefore, social media can be used to develop business strategies; (3) digital marketing as a business tool; besides social media, businesses can also apply digital marketing; (4) being mobile friendly; business actors must also pay attention to many Smartphone users and other gadget products.

Various payment methods can be used. Besides cash, people can use QRIS, GoPay, OVO, DANA, Link, ShopeePay, Linkaja, and others. This payment method can be done anywhere, both online and offline shopping.

Palembang City is also following the development of the digital economy, as evidenced by the large number of people who use online platforms [6] such as GoFood, GrabFood, ShopeeFood, Maxim, and other platforms. Meanwhile, an online/virtual shop is a facility or shop to offers goods and services via the internet, where visitors can see the goods in the online shop either through photos, videos, etc [7]. The

advantage of the online shop is that it can be ordered from anywhere, and visitors do not have to come to that place. This convenience can be utilized by everyone from various circles, both young and old. After utilizing the digital economy as a source of income, business actors can feel the income results, whether there is an increase or a decrease in income results.

It is easy to sell goods online, which does not require large costs such as providing a place/shop and a large and varied stock of goods. Thus, many people participate in selling online. Online shopping has revolutionized marketing strategies; consumers are used to online purchasing activities and product delivery; Many sellers nowadays can be done directly anywhere in the world [8]. World development in the current era cannot be separated from technology, similar to economic development that must follow current world developments.

A dominant but homogeneous business sector, indeed, causes high competition between sellers. This problem needs to be overcome by attempts to increase competitiveness. Small and Medium Enterprise owners must strategically improve service and quality. It can be implied from the previous statement that they need an idea to develop their respective merchandise products. [9] state that product evaluation must be carried out frequently because it is an important factor in selling and purchasing online. Consumers assess products based on perceived quality; thus, whether or not there is consumer intention to repurchase the product, price perceived competitive advantage by consumers, and the reputation of the product's website.

It impacts and affects online trust. The main predictors of online and repurchase intention are online trust and perceived value. Currently, the digital economy wave comes with a sloping topography that is inclusive and spreads the equality that exists as an opportunity. This characteristic has a competitive concept that prioritizes the spirit in the industry easily lifted by startup actors, indeed, by creating collaboration and synergy. Therefore, the digital economy is a 'sharing economy' that can encourage many small businesses operating in the informal and medium sectors to pursue world business [10].

### 3.3 E-Commerce

According to [11], E-commerce can broadly be defined as all transactional trade carried out electronically between businesses and other businesses, between businesses and business actors' end customers, and within a company or market. These activities are carried out via the internet, extranets, and intranet. E-commerce or online commercial transactions have become mainstream and are an economic force. Not only purchases of goods made online but also electronic exchange of services, including information and knowledge, such as legal advice, archival data, design, and financial services. Information, its provision, and access are critical issues, similar to e-commerce cases in any trading practice. Online access has become a social, economic, and educational need to participate fully. E-commerce is a buying and selling activity in which seller

and buyer activities are carried out via the Internet. Developing business is done both online and offline. Nevertheless, in this era of the global economy, computerized work processes and sales processes utilize this facility. E-commerce can help in increasing revenue [12].

There are some benefits of e-commerce, i.e., (1) increase customer base: customer satisfaction is the ultimate goal in every online or offline transaction. Product purchases can be made from all corners of the world; (2) increased sales: purchases and sales can be made throughout the world. There is an opportunity for a massive increase in sales figures, which will increase profits and redistribute money to make the consumer shopping experience faster and more efficient; (3) the international market, more products will be sold; (4) expanding business reach: Business expansion can be done worldwide. With the right marketing, every consumer worldwide can find business sites, products, and information without leaving home or country; (5) recurring payments made easy: with a little research, any business can set up payments; (6) instant transactions: with e-commerce, payments can be made quickly without waiting [13].

The disadvantages of e-commerce in online transactions are (1) the security and privacy of customer data is less secure. Hence, it will always be better to check the security of personal data. (2) Quality: Consumers do not know the quality or shape of the goods sold. Even though e-commerce makes everything easily accessible, consumers cannot touch the product until it is delivered to the door. Besides, because sales are carried out online, sometimes the goods do not meet expectations because the real goods are not the same as those in the catalog. (3) Hidden costs: When making a purchase, consumers are aware of product costs, shipping, handling, and possible taxes. (4) Delays in receiving goods: Although product delivery is often faster than expected, consumers must be ready for delivery delays. Sometimes, there is also a possibility that the product is lost or sent to the wrong address. (5) Need Internet access: Internet access is not free, and if you use free wifi, information theft is possible through unsecured sites. (6) Lack of personal interaction: With large or important orders, there is nobody consumers can talk to face-to-face when they have questions about the product. Sometimes, information about products is confusing regarding the legality of goods [13].

The creation of e-commerce is based on meeting consumer needs. Additionally, according to [14], the convenience factor of online shopping also determines consumers choosing an online shop to carry out transactions.

### 3.4 Digital Economy Challenges in the Informal Sector of Palembang City

The government significantly contributes to encouraging informal sector actors to maximize electronic payment systems on various platforms. It is one of the efforts to answer the challenges of digital transformation. There are seven approaches to defining the digital informal sector: market access, raw material

access, back office, logistics, capacity and quality, and digital payments. The platform is used as a digitalization program in the current digital era. Moreover, utilizing digital technology to create business independence is a positive thing that can potentially increase sales; hence, it can help sell digital products to small and medium-sized businesses, especially in Palembang City.

Future economic growth will depend on various technological innovations. The potential for Indonesia’s digital economy is enormous, but currently, the government’s task is to ensure that the digital economy can support economic growth. This new economy must encourage productivity and growth and become a beneficial foundation for society. The development of a digital lifestyle in technology-based industries has become necessary. However, on the other hand, it will become a necessity with a “serious threat” to traditional and conventional businesses due to change [15]. Current economic growth must encourage economic progress, increase trade activities between regions, and provide opportunities for economic diversification.

The digital economy encourages people to be more productive, innovate, and work by utilizing technology. Hopefully, the younger generation in Palembang City will be more versed in technological developments. Mastery of digital technology is still minimal. It should be anticipated by the Palembang city government and provide adequate skills training to business actors. If skills do not accompany technological progress, it is feared that Indonesia will only become a spectator and market share for foreign products. In addition to having a positive impact on economic growth, in the future, the digital economy will also bring challenges, especially for informal sector entrepreneurs, and micro- and small-scale entrepreneurs, who are currently not making much use of digitalization in their trading activities.

[16] Argue that the challenges for small businesses in the current digital era include (1) digital transformation, which is increasingly advanced and sophisticated day by day. However, it makes small business actors afraid because they are forced to change their ways. The conventional method will certainly raise concerns if the digital economic transformation does not meet expectations or fails. (2) Technology requires society to be adaptive. Current consumers also demand products and services to be fast and practical. Suppose a business does not provide it. Its consumers will slowly abandon it. (3) Technology has been adopted in business. The next challenge is to make the human resources employed adaptive to this technology. A business that wants to run professionally requires human resources who have sufficient capabilities. (4) Society is changeable regarding tastes and needs, causing business actors to be more creative and innovative in providing products and services, creating something unique. (5) Increasingly high competition because technological advances will encourage cooperation between business actors, which implies that business actors can cooperate with any part of the world and get competitors from various other businesses from any part of the world.

The challenges in the informal sector are (1) a free market system requiring the development of marketing strategies; (2) there is a change in consumer tastes; (3)

technological developments and advances can lead to changes in production patterns, composition, types of materials or inputs and product quality; (4) the existence of a master plan or city spatial plan can localize a business location [17].

Data on community challenges who are business actors in the informal sector in Palembang City identified in the research are summarized in Table 1.

**Table 1.** Percentages of digital economy challenges in informal sector communities of Palembang City

No	Digital Economy Challenges in the Informal Sector of Palembang City	Amount (%)	Percentage (%)
1.	Lack of Working Capital	69	17.9 %
2.	Lack of Customers	129	33.6 %
3.	No Business Skills	4	1.0 %
4.	Weak Product Branding	29	7.6 %
5.	Lack of Land Area for Business Places	9	2.3 %
6.	No Problem in Business	68	17.7 %
7.	Raw materials are hard to come by. Raw material prices fluctuate	22	5.7 %
8.	Consumer Complaints	11	2.9 %
9.	Employee	10	2.6 %
10.	Promotion Products	9	2.3 %
11.	Weather Constraints	21	5.5 %
12.	Thuggery	3	0.8 %
<b>Total</b>		<b>384</b>	

Source: Primary data, 2023

Based on data collected in the field, the most common challenge identified by people who were business actors in the informal sector in Palembang City was a lack of customers, i.e., 33.6 percent. Meanwhile, 17.9 percent of the challenges of informal sector business actors in Palembang city were lack of business capital, and other factors influenced the others. These results were in line with the interview excerpt below:

*“Previously, there were lots of buyers. Now, many people are selling a variety of the latest types of food and drinks. Hence, many people are selling; Only a few customers come to buy my product.”* (Informant I\_Ag)

*“Now, the buying and selling process uses internet technology, online social networks, and so on; thus, there are lots of choices. Sometimes our business only has a few customer.”* (Informant I\_Me)

Research informants stated that they had many challenges in their respective businesses. Previous research revealed that consumers also used social networks to sell products. The purpose of online social networking was to support and create social relationships, whereas e-commerce used internet technology to buy in sales [12]. Additionally, based on internet technology, this economic activity was included in the informal sector and was an essential part of life. Hence, it could complement various social activities in society. Social interactions in economic and business transactions were one unit. The research findings were consistent with research conducted [3] which discovered that there were three fundamental challenges for the digital economy to develop, namely: a lack of talent who understood digital technology, such as digital professionals, and digital facilitators, as well as a lack of means to track society's digital impact. Furthermore, they also stated in their research results that the success of economic digitalization was based on the ability of private sector people, especially those operating in the informal sector, to sharpen their skills for more sustainable progress in the digital economy.

The current digital economy will most likely continue to develop, characterized by a series of interoperable technologies with product platform ecosystems [18]. Platforms develop from the "network effect" of increasing the number of users and customers, which makes the platform's usability even higher. Therefore, competition between platforms must be mutually affiliated and have close relationships. The key is that business actors have the ability and knowledge of the target market to offer more attractive products to attract customers. The more sophisticated digital economic innovation in Palembang City, the more challenges will be faced. Digital transformation is getting more advanced and sophisticated every day and has many benefits for developments in the current business world. Technological sophistication has a positive impact. One of them is saving time, energy, and minimal costs but with results that are considered quite optimal.

In terms of service speed, technology also requires business owners to be adaptive. Current society or consumers also demand products and services to be fast and practical. If business owners cannot fulfill current desires and trends, the consequence is that consumers will slowly abandon these businesses. To overcome this, business owners can collaborate with currently developing technologies. Based on the perspective of human resources in Palembang City, technology can already be used in various fields of business, but it has not been running smoothly. Thus, it is the task of the Palembang city government to complete and find how to overcome this problem. One is by creating and training human resources that are adaptive to technology so that technology can be used optimally.

The next challenge is the ever-changing desires of the people, be it in terms of tastes, desires, and necessities of life. It can be felt that in current society is easy to get bored with one thing and have quite complex desires. In the business world, competition cannot be avoided. Competition between traders is a challenge in

the informal sector, especially in utilizing the digital economy in Palembang city. Technology has an influence. Sophisticated technology can integrate businesses; whatever business is being carried out can be carried out without the limitations of space and time. As a result, a business can collaborate with other businesses worldwide.

## 4 Conclusion

Based on the field results obtained, it shows that the type of business is relatively homogeneous with the biggest challenges due to the lack of customers. Ease of purchasing a product using a digital platform that can be accessed anywhere and provides various non-cash payment methods. This research also identifies business opportunities in the informal sector which are in great demand. So that it has a positive impact, such as being able to increase income by utilizing digital technology like today. It can be seen that the most positive impact that occurs is the creation of various types of new and contemporary businesses, as well as innovation to make products better through business experience. Apart from that, government participation is needed in supporting business development in the informal sector of the city of Palembang.

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