

## *Opening up new trajectories in the informal sector: Can township innovation hubs make the difference?*

### **Summary**

The informal sector is commonly seen as an incubator for start-ups. More recently, there has been growing interest in the informal sector as an incubator for innovative ideas and locally-derived solutions to social problems. Reflecting this trend, in South Africa innovation hubs have sprung up in townships in major cities with the aim of promoting entrepreneurship, small business development and opportunities for youth development. The government has committed to further investment in township innovation hubs through setting up hubs in four townships.

The hub model shows potential to boost creativity and to facilitate collaboration and interactive learning among a range of actors, including both formal and informal businesses and support organisations. This kind of collaborative creativity and collective entrepreneurship is crucial for opening up new trajectories,<sup>1</sup>

but does not happen *automatically*. Also, the focus on promoting opportunity-driven entrepreneurship and innovation is likely to exclude the majority of informal businesses, which tend to be survivalist enterprises.

A key question that this policy brief addresses is: How can township innovation hubs contribute to building local innovation and production capabilities? The brief identifies specific ways for township innovation hubs to create social spaces conducive to creativity, co-creation and innovation, and to develop programmes that are useful and *relevant* for supporting small business development in township economies where the majority of businesses tend to be survivalist enterprises. We draw on rich qualitative data collected through participatory research in one of the oldest townships in Cape Town – Philippi East.

1. Lundvall (2016) emphasises the importance of collective creativity and collective entrepreneurship for innovation.

## Introduction

Innovation hubs are gaining popularity as enablers of entrepreneurship, collaboration, creativity and innovation.<sup>2</sup> This is evident in the proliferation of innovation hubs in major cities around the world, including South Africa. In township areas specifically, the potential for innovation hubs to be spaces for participatory collaboration where ‘innovative and locally relevant solutions’ are developed has been highlighted (Kraemer-Mbula & Konté 2016). Indeed, innovation hubs have sprung up in informal settings such as township areas. The South African government, for example, intends to invest in setting up innovation hubs in four townships to promote entrepreneurship, small business development and opportunities for youth development (State of the Nation Address 2019). The impetus is local economic development and social impact.

It is commonly assumed that establishing an innovation hub in a local setting where resources are needed *automatically* creates a social setting that is conducive to participation, collaboration, creativity and co-creation. Our research shows that this is not the case.

It is thus timely that we assess the strengths and limitations of these hubs, particularly for building local innovation and production capabilities – to inform future investment in innovation hubs as game changers in township economies.

Case study research on one innovation hub in one of Cape Town’s oldest townships, Philippi East, was conducted. Based on a participatory approach, the study draws attention to how the values, norms and identities of people (including the surrounding communities, and the people who use

and work at the innovation hub), as well as the interaction between them, shape the role of the hub in the township. Rather than seeing an innovation hub as simply an infrastructure development, there is value in viewing it as a relational space.

## Study findings

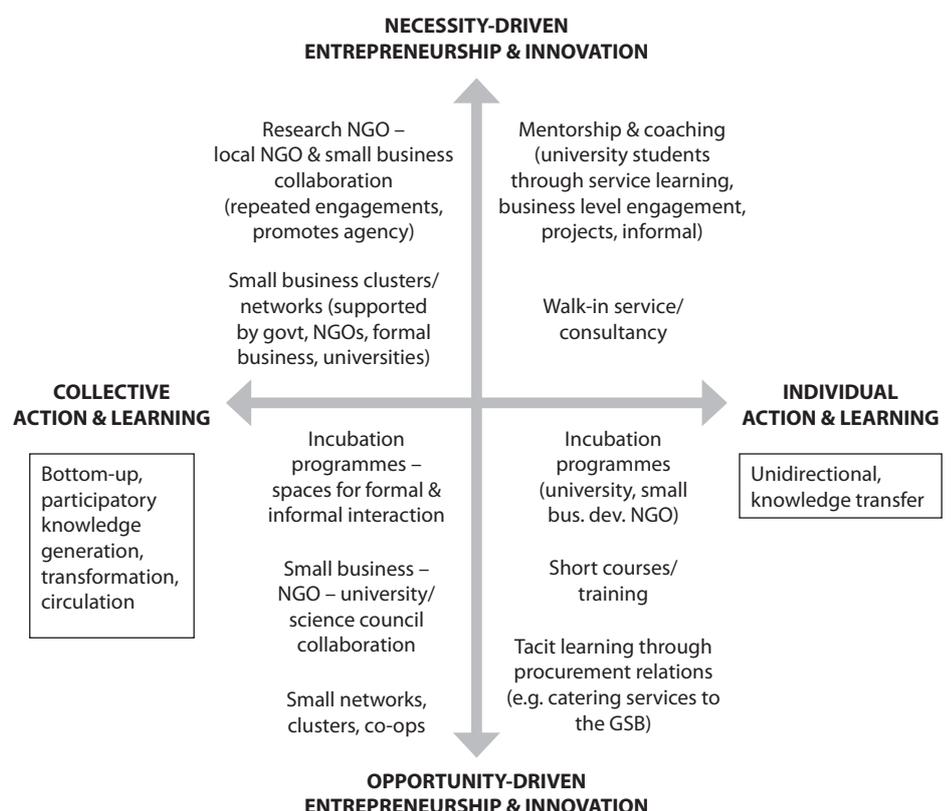
### *Aligning the entrepreneurship model with locally-embedded values and practices*

In townships, the majority of informal businesses are started out of necessity or the need to take care of the family, neighbours and others in the community. It is common practice to share business space and resources and to work together to achieve business-related goals. In Philippi East, for example, most (63%) of the informal businesses are single-owner, survivalist enterprises (Brown & Charman 2018). The main mode of entrepreneurship, which was

motivated by resource constraints and traditional values such as ‘ubuntu’, emphasised this kind of collective action. The locally-embedded models of entrepreneurship and innovation were therefore more necessity driven than opportunity driven.

A concern is that programmes and initiatives based on mainstream entrepreneurship and innovation models tend to hold the individual as central, and emphasise opportunity-driven innovation. Our analysis of the Philippi Innovation Hub highlighted a tension between locally-embedded models of entrepreneurship and innovation and more mainstream models promoted through the hub. As a result, the initiatives and programmes (including the incubation programme) tended to follow a knowledge-transfer approach that was not conducive to fostering collective action and learning (see Figure 1).

**Figure 1:** Mechanisms promoting learning and innovation



2. See, for example, Toivonen and Friederici (2015) and the World Bank (2016).

## **Facilitating and fostering collective learning**

Since knowledge needs related mainly to tacit knowledge, experiential learning was most common among the informal traders. Collective learning (which is crucial for experiential learning) took place to a limited extent, except for some non-South African informal traders who were inserted into networks with a strong culture of collective learning. Facilitating and fostering collective learning were identified as a second major challenge.

The study found that learning through interaction with customers was valued and commonly used; however, to create dynamism and build local capabilities, learning through interaction with other businesses (formal or informal) and formal knowledge producers was crucial. Therefore, different strategies and mechanisms are required to facilitate collective learning, which is essential for the exchange of tacit knowledge and for fostering co-creation and diffusion. Formal knowledge producers addressing business development needs in such resource-poor contexts need to consider using specific techniques for facilitating the sharing of knowledge and ideas and relationship building.

## **Giving direction to learning and innovation**

We argue that township innovation hubs can play a big role in changing business trajectories in the informal sector through giving direction to the process of learning and innovation.<sup>3</sup> Experiential learning (the Doing, Using, Interacting, Imitating and Searching mode – DUUIS mode) is crucial for necessity-driven entrepreneurship, and is likely to foster the kinds of incremental changes to products and

services and work organisation that make up the most common innovation activities in the informal sector. However, as Lundvall (2016) cautions, supporting this mode of learning and innovation *only* is unlikely to lead to a change in trajectory that is needed to promote upgrading and strengthen local innovation and production systems. Universities, in contrast, have tended to promote a more science, technology and innovation (STI) mode of learning and innovation, which fosters opportunity-driven entrepreneurship and innovation. University actors thus focus *mainly or only* on this STI mode in a local setting where necessity-driven entrepreneurship is common and knowledge needs relate more to tacit forms of knowledge. This is also unlikely to result in a major change in trajectory, as it excludes the majority of businesses.

We thus propose a process of learning and innovation that includes a combination of both STI and DUUIS modes, and fosters collective entrepreneurship. Therefore, we emphasise organisational forms that include a range of types of actors, each with specific sets of expertise and orientation – universities, NGOs and research organisations that are supported by intermediary organisations.

## **Bringing about a sense of belonging**

The research highlights the need for creating and fostering a sense of feeling safe, a sense of belonging, and a feeling of connectedness to each other and the physical and the social setting. We found that the absence of a sense of belonging affected participation and the use of the hub's resources. Misalignment in values and practices, and a weak engagement strategy, contributed to a disconnect between the hub and the 'average' entrepreneur and informal trader.

We found that a flexible engagement strategy that emphasises working with

local social structures, community-driven initiatives and an openness to evolving, in response to feedback from and change in the local setting, was crucial.

The research highlights the value of a more holistic, multidimensional approach to building local capabilities in a township setting. This should be accompanied by strategies to promote inclusion in value chains and to expand business opportunities.

## **Recommendations**

How can township innovation hubs contribute to opening up new trajectories in the informal sector?

- Align the entrepreneurship model promoted through the hub with locally-embedded values and practices. Entrepreneurship models that foster collective action, collective learning and collaborative creativity are most suitable. The hub should be open to co-evolving with the community.
- Introduce programmes (including incubation programmes) and networking initiatives that facilitate and foster collective learning. Programmes and initiatives based on knowledge transfer approaches are not suitable.
- Give direction to learning and innovation. Balancing imperatives related to science-driven and experiential-based modes of learning and innovation is crucial. In this way, the hub will address the needs of the majority of the businesses in the township (which are necessity driven) and at the same time promote opportunity-driven entrepreneurship and innovation (which is essential for opening up new trajectories).
- Involve a range of actors: universities; NGOs; and local, provincial and national government. NGOs play a key role in supporting mainly necessity-driven entrepreneurship and innovation, while universities

3. Lundvall (2016) indicates that giving direction to learning processes is necessary for changing trajectories within a system.

and research organisations tend to focus on opportunity-driven entrepreneurship and innovation.

- Promote economic opportunities to create an enabling environment and increase the potential for impact. Here, the hub can play a role by including a business park for informal traders. The government (and the hub) can play a role by supporting local procurement.

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