

Innovation in Sweetwaters' small businesses

*Learning from research
to support informal entrepreneurs*



science & innovation
Department:
Science and Innovation
REPUBLIC OF SOUTH AFRICA



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Social science that makes a difference

South Africa's Human Sciences Research Council (HSRC) is the largest research institute in the social sciences and humanities in Africa. It does public research in areas that impact on development with a focus on poverty, inequality and inclusion.

This brochure draws on the results of the Innovation in the Informal Sector research programme undertaken in Sweetwaters, KwaZulu-Natal by the HSRC's Centre for Science, Technology and Innovation Indicators (CeSTII) and commissioned by the national Department of Science and Innovation.



The HSRC's Centre for Community-Based Research, which is based in Sweetwaters, helped to conduct the research for this publication.

Credits

This publication was compiled and written by Katharine McKenzie based on the findings of the HSRC's Innovation in the South African Informal Sector Project in Sweetwaters, KwaZulu-Natal, 2017-2018. The HSRC-CeSTII project team included Dr Glenda Kruss, Dr Nazeem Mustapha, Dr Il-haam Petersen, Dr Oluseye Jegede, Dr Isabel Bortagaray, Nicole van Rheede, Juliet Mokoelé, Xolisa Magawana, Nozibele Gcora. Tracey Watson is acknowledged for design and layout and Antonio Erasmus for the photographs.

About Sweetwaters

Sweetwaters is part of the Msunduzi Municipality, an area that includes the city of Pietermaritzburg. Sweetwaters is also known locally as Mpumuza, the traditional name of the area.

Informal business owners innovate in Sweetwaters

Small and informal businesses play an important role in South Africa. They provide income and jobs for many people and offer useful goods and services to customers. But for many informal business owners with tuck shops, spazas, sewing businesses and the like, it's still a daily struggle to survive.

The Human Sciences Research Council (HSRC) researches 'innovation' in South Africa. Innovation happens when new or improved goods or services are used or tried out. Businesses that 'innovate' or experiment with new products and processes are often successful. Innovation can help all businesses – formal or informal – to grow and thrive.

The HSRC studies innovation to understand how South Africa can increase economic growth, create new jobs and tackle inequality. As part of its research, the HSRC surveyed nearly 1 000 informal business owners in and around Ward 1 of Sweetwaters (Mpumuza) to find out more about their businesses.

This research helps government and other role players understand how to support informal businesses better. Research into innovation also shows that when small businesses work together in a network they can support and learn from one another.

For the research the HSRC:

- Interviewed 996 informal business owners in Sweetwaters
- Hosted a digital storytelling workshop with local entrepreneurs
- Wrote case studies about the sectors of Sweetwaters' informal economy

This publication summarises what we learnt from the informal business owners and traders of Sweetwaters.



Nearly 1000 entrepreneurs were surveyed by the HSRC about how they innovate.



Many different kinds of informal businesses trade in Sweetwaters.

The informal economy of Sweetwaters / Mpumzuza

The HSRC identified 1 289 informal businesses in Sweetwaters and surveyed 996 of these. Informal businesses in Sweetwaters provide a wide range of goods and services including:

- Food services
- Building services
- Haircare and cosmetics
- Clothing and homeware
- Vehicle repairs
- Accommodation
- Metal work
- Transport services
- Creative arts and entertainment
- Traditional healers
- Day care and preschool
- Electronics repairs
- Business support





Services businesses operate from many homes in Sweetwaters.

Facts and figures about the businesses of Sweetwaters

Most common businesses in Sweetwaters

The most common businesses are in the food sector (27%), building sector (17%) and the haircare and cosmetics sector (15%). Electronics repairs and maintenance, and business support services are the smallest business sectors (less than 1% each).

Age of businesses

Most informal businesses in Sweetwaters are at least three years old and 26% of businesses are older than 10 years.

How businesses communicate

Most informal businesses use a cellular telephone (88%). WhatsApp is the most common social media tool used by 32% of businesses to communicate with customers, followed by Facebook, used by 23% of businesses.

Biggest challenges for businesses

The biggest challenge reported by Sweetwaters' business owners is that there are too few customers, or too much competition.

Employment and skills in Sweetwaters' informal economy

The average informal business employed just over two people in 2018. About one-fifth (20%) of employees had skills developed within the formal sector. The research showed that employees in Sweetwaters' informal sector learnt new skills in these ways:

- by using new equipment or raw materials (52%)
- from colleagues at work (31%)
- through employers that encouraged employees to solve problems (29%)
- by copying large and formal businesses (41%)

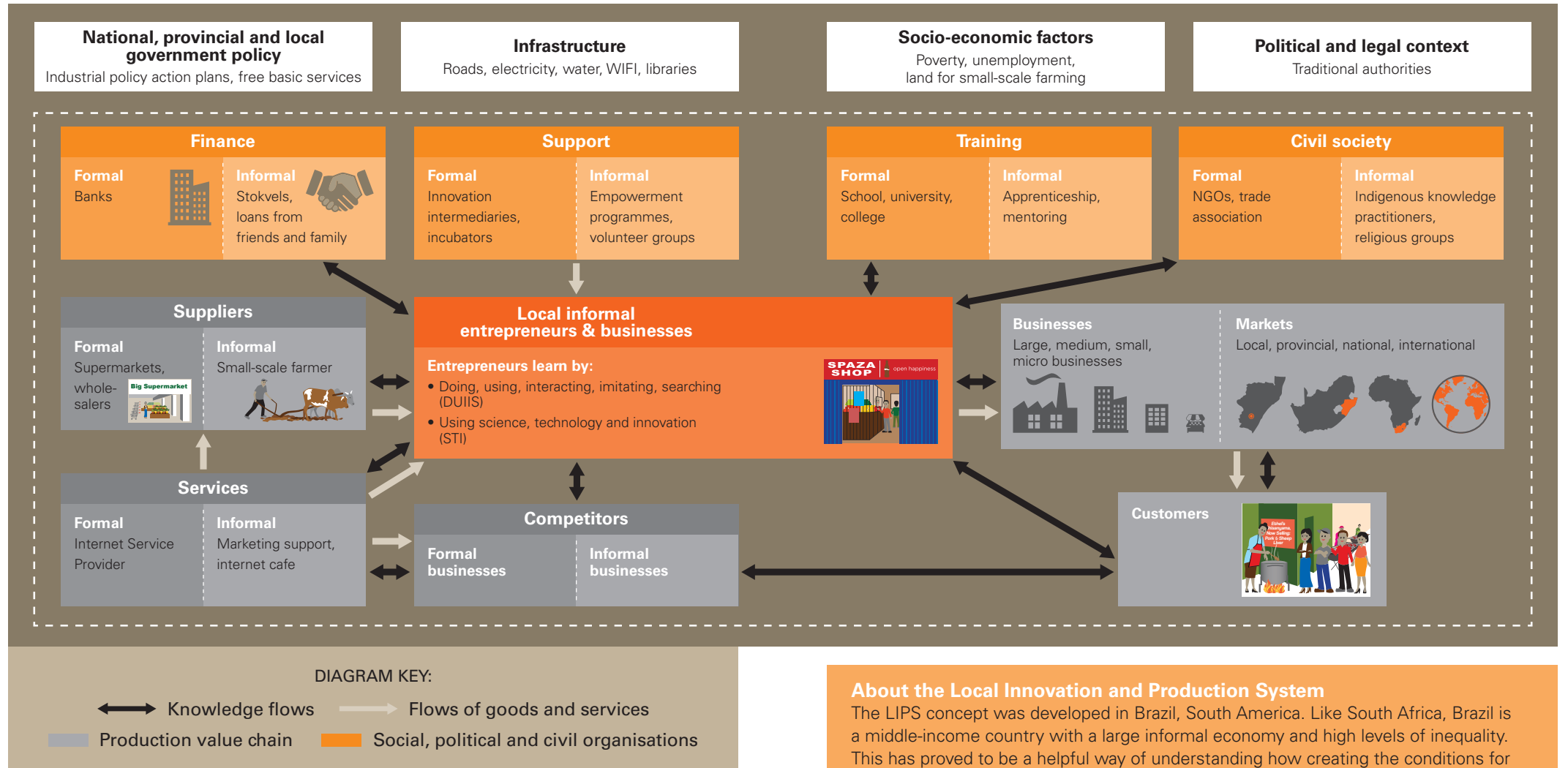
How the local innovation and production

system works in Sweetwaters



A local innovation and production system (called a LIPS for short) is a way of understanding how a local economy works. As a business owner, think about the larger web of people, businesses, infrastructure and culture that you are part of. All these things affect your business, and you. All businesses rely on a network to trade, learn and innovate.

A good network can help all businesses to thrive. An important finding of the HSRC research is that linkages between businesses and other roleplayers in the Sweetwaters local innovation and production system are weak. Strengthening them would help to build the local Sweetwaters economy.



About the Local Innovation and Production System

The LIPS concept was developed in Brazil, South America. Like South Africa, Brazil is a middle-income country with a large informal economy and high levels of inequality. This has proved to be a helpful way of understanding how creating the conditions for innovation can help build a local economy.

Source: Authors (based on Cassiolato *et al*, 2017 and de Beer and Wunsch-Vincent, 2013)

Research finds that businesses in Sweetwaters can grow more

The research findings indicate that Sweetwaters/Mpumuzu has a large and vibrant informal economy providing a variety of goods and services to customers, despite many challenges. Business owners are innovative and continually try out new products and ways of doing things.

Innovation despite the challenges

The findings show that informal businesses in Sweetwaters are able to innovate, with very limited resources, and this helps them to compete and sustain their businesses for several years.

Innovation to unlock growth

At the same time, the nature of the innovations, and lack of collaboration and interactive learning restricts the growth of some businesses. One way for the informal businesses to compete and grow is to use their local knowledge and networks to grow in complexity by working with others for new ideas and support. This can lead to better goods and services and improved ways of managing, to grow businesses for greater employability and sustainability.

Using local traditional expertise

An advantage for informal businesses, particularly in sectors like Mpumuzu's clothing businesses, is that they are near to the local traditional expertise needed to build 'niche markets' based on traditional African dress and knowledge. This is an opportunity to combine existing 'know-how' to make traditional clothing and use new technology and skills to enter formal value chains.

What is a 'niche market'

A niche market is a specialised market for a particular product or service.

“ When asked about challenges to innovation, the majority of respondents reported no barriers to their innovation attempts. This reflects the spirit of the owners of informal businesses who are constantly willing to adapt to changing circumstances and opportunity, often of necessity. ”

Strengthening networks of informal businesses

The research showed that other businesses were the second most important partner for innovation. But, often, the interaction was limited to only once or twice a year. This includes interactions with suppliers, competitors and business clusters.

More than half of the businesses bought their supplies from inside the neighbourhood. Many bought their supplies from formal retailers in Pietermaritzburg rather than from other informal businesses in the neighbourhood.

Informal businesses seldom share knowledge, few are involved in clusters, and links across the value chain and with support organisations are very weak.

Understanding a 'value chain'

A value chain is the 'chain' of business activities that create value for customers. It includes making something, marketing it and providing after-sales service.

High innovation rate in Sweetwaters

82,5%: The innovation rate in Sweetwaters measuring successful product or process innovation.

62,4%: The product innovation rate in Sweetwaters. This refers to the introduction of new or improved goods or services to the market.

78,9%: The process innovation rate in Sweetwaters. This refers to new or improved business processes, such as the use of computer software to manage cash flow and accounts.

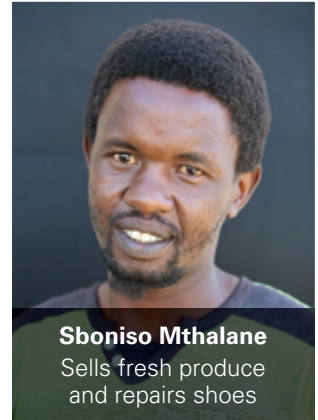
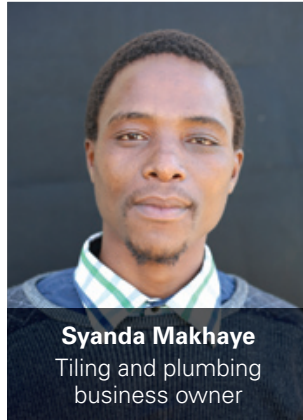
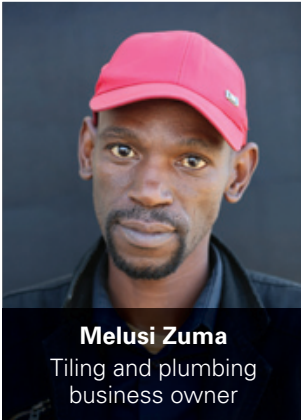
The **HSRC** and the **Sustainable Livelihoods Foundation** hosted a digital storytelling workshop for these entrepreneurs exploring how innovation happens in informal businesses.



Thabani Mthlane
Hair salon owner



Sunny Radebe
Construction business owner



What the research on informal business in Sweetwaters means for policy

Policy and other actions by local, provincial and national government can help to boost Sweetwaters' informal businesses. These are some of the things that government can do to help informal businesses to grow and thrive:

Create accessible market spaces for trading

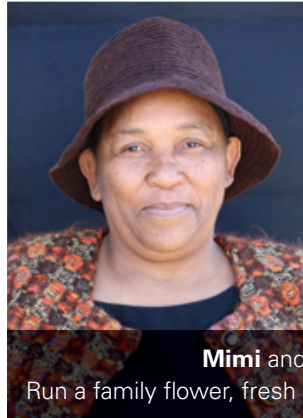
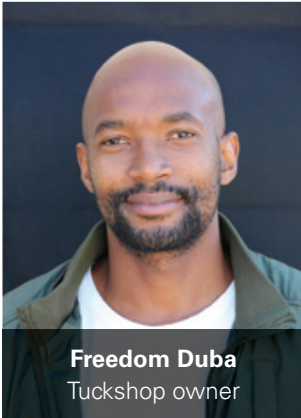
Local government can support informal businesses by providing well-managed and well-located spaces where informal businesses can sell goods and services, reach their customers and link with other businesses and organisations.

Expand Internet access

The cost of accessing the Internet is a challenge to the marketing and innovation abilities of informal businesses. Internet access through free WIFI hotspots in the neighbourhood, such as the library is crucial. This will enable businesses to source new information to support their innovation activities and connect with customers and suppliers.

Promote clustering and co-operatives

Two important ways to strengthen linkages between informal businesses is through clustering and co-operatives. These can help informal businesses to take up opportunities they may not be able to by themselves. A cluster of informal businesses may be able to fulfil a school contract to make uniforms, for example. A single informal business may not be able to do this on its own.



Support the informal business chamber

The role of the informal business chamber could be strengthened to create spaces for meetings and networking among informal businesses in the local area and with formal businesses. This can help to build the local production value chain.

Support interaction with education and training organisations

Partnerships between informal businesses and universities, colleges and training organisations were virtually non-existent. Informal businesses in the area used scientific and specialised knowledge to a tiny extent. The analysis of interaction with education and training organisations shows that, in general, informal businesses do not make use of the specialist technical training colleges located in nearby Pietermaritzburg such as the School of Fashion Design.

Build local capability across the value chain

Government can provide support to build local capabilities across the value chain using the skills and entrepreneurship that exists in informal businesses. This could have a greater impact when implemented in partnership with well-established formal businesses and community-based role players.

Defining innovation

The formal definition of innovation used by the HSRC for this research is from the international Organisation for Economic Co-operation and Development. It says:

...innovation is a new or improved product or process (or a combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process). (OECD 2018)

Find out more

This publication is based on the Innovation in the Informal Sector research project conducted by the Centre for Science, Technology and Innovation Indicators, a specialist centre within the HSRC.

The full research reports can be downloaded from the HSRC-CeSTII website (<http://www.hsrc.ac.za/en/departments/cestii>) and DSI website (www.dst.gov.za).



Care is taken to ensure the confidentiality of respondent information and the data presented in the reports are therefore anonymised as far as possible.



Members of the CeSTII and HSD team in the field with Nonhlanhla Mkhize from DSI and Mr Gwala (research participant), Sweetwaters, KwaZulu-Natal.