

Innovating to survive

*How informal businesses prevail
in Cape Town's Philippi township*



science, technology
& innovation

Department:
Science, Technology and Innovation
REPUBLIC OF SOUTH AFRICA



HSRC
Human Sciences
Research Council

CeSTII
Centre for Science, Technology
& Innovation Indicators

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 publication is based on the findings of the Innovation in the South African Informal Sector Survey in Philippi, Western Cape, 2021–2022, conducted by the HSRC's Centre for Science, Technology and Innovation Indicators (CeSTII).

The informal sector encompasses largely unregulated but legitimate economic activity carried out by mainly micro enterprises and survivalist own-account operators. The definition of an informal business adopted in the survey is aligned with the International Labour Organisation 15th ICLS Resolution (ILO, 2013). The formal definition of innovation is from the international Organisation for Economic Co-operation and Development:

"...a new or improved product or process (or 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)" (Eurostat/OECD, 2018).

Credits

HSRC CeSTII project team:

Dr Il-haam Petersen, Dr Nazeem Mustapha, Dr Nicole Van Rheede, Dr Mbongeni Maziya, Setsoheng Mayeki, Lungani Mvelase, Viwe Sigenu

Fieldwork: The Safety Lab

Copy: Katharine McKenzie

Design and layout: Tracey Watson

Photography: The Safety Lab and Setsoheng Mayeki

Cover photo credit: Sandiso Phaliso/GroundUp (CC BY-ND 4.0)

Published: March 2025

Contents

| | |
|--|----|
| New evidence from Philippi's informal economy | 2 |
| Surveying informal businesses in Philippi | 3 |
| How informal businesses innovated in Philippi | 6 |
| What held back business innovation | 8 |
| How policy makers can support business growth and innovation in Philippi | 9 |
| Find out more | 10 |



*Informal business owners at a workshop hosted by the HSRC at Philippi Village. April 2024
Photo credit: Setsoheng Mayeki*

New evidence from Philippi's informal economy

Africa's informal businesses are a large and vital part of national economies. In South Africa they provide income and jobs for many people and supply useful goods and services to customers.

But many informal businesses do not thrive, and this limits their ability to contribute significantly to livelihood opportunities and decent employment creation in local economies.

The Centre for Science, Technology and Innovation Indicators at South Africa's Human Sciences Research Council studies informal businesses to see how they innovate and how government and other social partners can support them better.

In 2017–18 the HSRC-CeSTII surveyed innovation in the informal sector in Sweetwaters, KwaZulu-Natal, interviewing nearly 1000 owners of spaza shops, hairdressers, food stalls and small-scale manufacturing and services.

The findings, published in 2021, were used to conduct a second survey in Philippi township, Cape Town, to provide more insight into South Africa's informal economy and how its entrepreneurs find creative solutions to problems and use these to drive business growth.

This booklet shares its main findings and suggests how policy makers can respond to improve support to informal businesses in Philippi and other areas.



Why informal businesses matter

South Africa's economy is weakening, and unemployment is growing. There are fewer opportunities for everyone, particularly young people coming into the job market. For many, informal businesses provide a pathway to survival. SA's informal economy is:

- dominated by youth and women
- includes \pm 3 million people
- provides \pm 20% of employment
- contributes billions to the economy. For example, informal food businesses contribute about R87 billion annually.



Eiland Welding makes and repairs items for households and businesses in Philippi.

Photo credit: The Safety Lab

Surveying informal businesses in Philippi

Philippi is a peri-urban township on the Cape Flats surrounded by other large townships including Nyanga, Gugulethu and Crossroads. The study area for the survey covered four wards in Philippi East and included industrial, mixed commercial and residential areas. Here are some of the survey's main findings:

Why entrepreneurs start businesses in Philippi

82,5% were started as the business owner was unemployed.

36,3% started a business to meet basic family needs.

Business registration

Only 5% of Philippi's businesses were registered, and 97,7% were totally informal.

Employment by informal businesses

Between 2021 and 2022, a small proportion of Philippi's informal businesses started employing staff full-time (13,3%) or part-time (17,6%). Only 1% of the businesses registered employees for benefits such as unemployment insurance or health insurance.

Number of employees

There were an average 1,79 employees per business.

Turnover

79,9% of the informal businesses generated a turnover of R36 000 or less in 2022. Most businesses reported monthly earnings below the upper-bound national poverty line.

Financial management

About 5% of the businesses surveyed were registered for tax, 20% opened a bank account and 6,6% started to keep accounts and financial statements.

Infrastructure and services in Philippi

25,6%

of businesses had no access to piped water



30,7%

accessed a shared tap more than 200 metres from the business



35,5%

had no access to electricity



5,4%

accessed electricity unpaid



1,0%

used a generator or solar power



44,2%

of businesses did not have access to a toilet



Customers and competition

Challenges reported were too few customers (60,1%) and too much competition (57,8%).

Most informal businesses are young

Most informal businesses in Philippi East were at least three years old and 20,8% were older than ten years.

Informal business clusters trading in Philippi

The survey found that:

- Food services were most common, making up nearly half of the businesses (47,8%)
- 14,6% were haircare and cosmetics businesses
- Wearing apparel (e.g. clothing and shoes) and homeware were 11,9% of businesses
- Accommodation, the creative arts and entertainment services were the smallest business sectors, making up less than 1% each.



An informal laundry business used by households in Philippi East. Photo credit: The Safety Lab

How informal businesses innovated in Philippi

The survey measured innovation in 970 informal businesses in Philippi. It found that:

The 'innovation rate' of informal businesses was 35%

The innovation rate measures successful 'product' or 'process' innovation.

The 'product innovation' rate of informal businesses was 32,5%

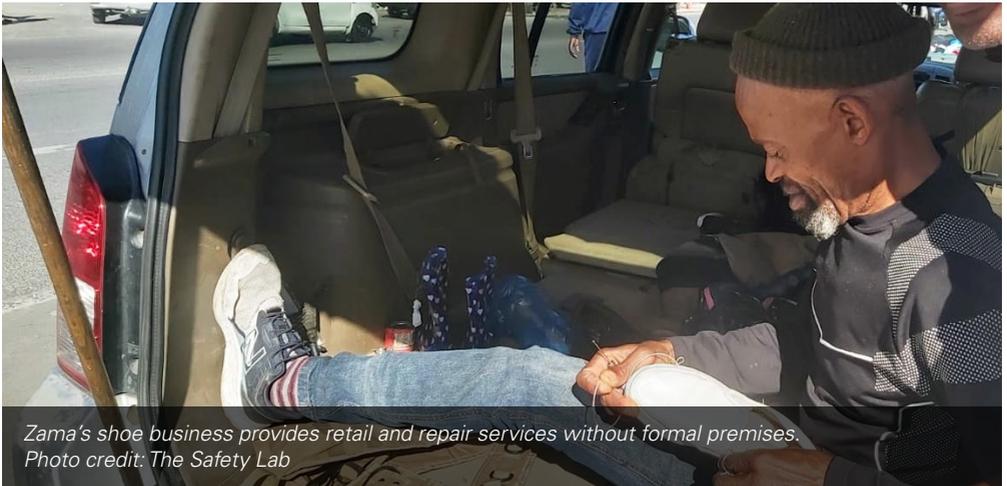
This means that nearly a third of informal businesses in Philippi created new goods or services for their customers in 2021–22.

The 'process innovation' rate of informal businesses was 33,8%

This means that a third of informal businesses in Philippi used new processes to improve their businesses. Marketing innovations were most common, followed by organisational innovation.



Signage in Philippi: this form of marketing is a process innovation to attract new customers. Photo credit: The Safety Lab



Zama's shoe business provides retail and repair services without formal premises. Photo credit: The Safety Lab

What inspired innovation by informal businesses?

In Philippi most innovation involved owners and employees 'learning by using' (96,5 %), followed by doing everyday working tasks including:

- Working with new tools, machinery and equipment (79%) and technology (52%).
- Training staff (50%), learning on-the-job (23,6%) and informal experimentation leading to unexpected discoveries (38,4%) also led to innovation. Imitating the products of formal businesses was 46,1% of innovation activity.
- Interacting with other businesses and suppliers (51,4%) and search activities (40,8%) were also important innovation activities. Less common was the use of technical and specialised knowledge from universities, research organisations and colleges (12,6%).

What is innovation and why is it important?

Innovation is about using your skills and the knowledge available to you to create value for your customers. Innovation can be making small changes to your products and how you run your business. It can also be about creative solutions to make do with the limited resources you have. When we learn and make changes, there may be business gains such as more customers and increased sales.



An exhaust repair service operating outdoors in Philippi. Photo credit: The Safety Lab



Thabiso Tshepe sells fruit and vegetables at his brother's stand in the Marikana informal settlement in Philippi East. Photo credit: Masixole Feni/GroundUp (CC BY-ND 4.0)

What held back business innovation

Many informal businesses do not thrive, and this limits their ability to contribute significantly to expanded livelihood opportunities and decent employment creation in local economies. The survey found some local challenges that held business back from innovating and growing:

Crime

More than half (53,1%) of business owners reported that high levels of crime had a high effect on their innovation activities.

Low access to modern technology

Barriers to innovation related to access to technology, including rapid changes in technology (19,8%), the cost of modern technologies and tools (18,6%), and the high cost of imported equipment (17,8%).

Protests and crises

Protest action and crises inside the community had a medium to high effect on innovation in more than 20% of businesses.

Little support

Only a few businesses in Philippi accessed support for their businesses. Most businesses (87,2%) did not interact with government departments or extension workers (88,4%).

Only 6,1% received support through government programmes for training, access to equipment or facilities (0,7%), access to ICT infrastructure (0,2%), support for marketing (11,3%), SEDA incubation programme (0,3%), or other incubation or mentoring (0,6%).

Skills development

A small proportion (8,9%) of the business owners had skills developed within the formal sector. About a third (29,4%) of employees obtained skills by learning to use new equipment or raw materials; other skills were developed by employees through colleagues (17,1%) or employers that encouraged employees to solve problems (19,7%). Many employees learnt new skills through copying large formal businesses (18,7%).



Edukids college in Philippi, an informal business offering early childhood development for small children. Photo credit: The Safety Lab

How policy makers can support business growth and innovation in Philippi

Policy makers at the local, provincial and national spheres of government can work with the Philippi community to support the development of an innovation economy:

Make Philippi safer and reduce crime

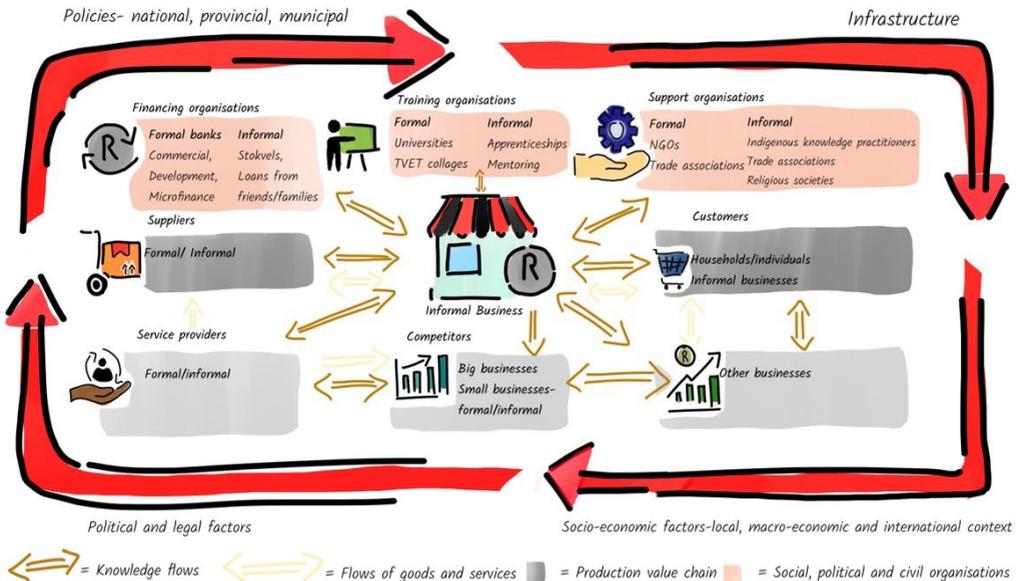
Philippi's high crime makes households unsafe and informal businesses, many of which operate without secure premises, are especially vulnerable.

Improve municipal infrastructure

Poor infrastructure, including water and electricity connections, access to toilets and limited ICT infrastructure hold back business growth. Local government is responsible for utility services and has a constitutional mandate to promote local economic development.

Build stronger business innovation networks

Research in South Africa and internationally shows that strong communities with strong networks are more likely to thrive. Philippi's local innovation and production system can be strengthened through more business clusters, collaboration, and stronger working relationships with suppliers, other businesses and education and training providers.



A local innovation and production system benefits individual businesses with opportunities for trade, learning and innovation

Source: CeSTII (2021, based on Cassiolato et al, 2017 and de Beer and Wunsch-Vincent, 2013; illustrated by Tebogo Matshana)

Find out more



Innovation in the Informal Sector research reports

Visit the HSRC website for more information about informal sector innovation. Research reports can be downloaded from www.hsrc.ac.za/departments/cestii.



Informal Business Innovation Toolkit

The HSRC has developed an Informal Business Innovation Toolkit. This is available in the My Business Innovation Planner (MyBIP) mobile app available for download from Google Play Store https://play.google.com/store/apps/details?id=co.za.hsrc.mybip&pcampaignid=web_share and Apple App Store <https://apps.apple.com/za/app/mybip/id6742815109?platform=iphone>.



Informal Business Innovation Hub website

Visit the website for business owners' stories of innovation, as well as research, case studies, reports and policy briefs for and about informal businesses: <https://informalbizinnovationhub.hsrc.ac.za/>



science, technology
& innovation

Department:
Science, Technology and Innovation
REPUBLIC OF SOUTH AFRICA



CeSTII

Centre for Science, Technology
& Innovation Indicators