Informal Manufacture of Home and Personal Care Products in South Africa

The Informal Economy in Developing Countries: Hidden Engine of Innovation and Source of Intellectual Property?

Erika Kraemer-Mbula, PhD.
Senior Lecturer & Research Fellow
Institute for Economic Research on Innovation
Centre of excellence in Scientometrics and STI Policy
South Africa

Objectives of the study

- Understand the **system of actors** and institutions surrounding informal manufacturing of home & personal care products in South Africa
- Understand the **connections** between informal productive activities, and formal systems
- Identification of **innovation activities** – learning, knowledge flows, technology transfer
- Develop an understanding of the obstacles that hinder the performance of micro-enterprises situated in the informal economy
- Understanding mechanisms of **knowledge appropriation** and role of IP
- Policy implications

Methodology

- Manufacturing activity: ISIC Code 2424 “Manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations”
  - Structured interviews to a sample of 25 informal manufacturers – snowball sampling
  - Two South African provinces (Gauteng and Eastern Cape); three large informal settlements and two main metropolitan areas.

- Identification of the productive value chain & the wider innovation system
  - Unstructured interviews with suppliers, customers, government and regulatory bodies , training organizations, technology transfer, incubators

Profile of the home & personal care industry

- Diversity of products
  - Including personal care products (e.g. cosmetics, toiletries, perfumes, oral care, foam bath, etc), home care products (e.g. dishwasher, bleach, air fresheners, floor polish, etc)
- Broad and fragmented market
  - space for small and micro manufacturers targeting specific market niches (e.g. natural products, ethnic niche markets, etc)
- Fast growing demand for low-cost products and small unit sizes
- South African low-income households spend approximately 4% of incomes on household consumables and 3% on personal care.

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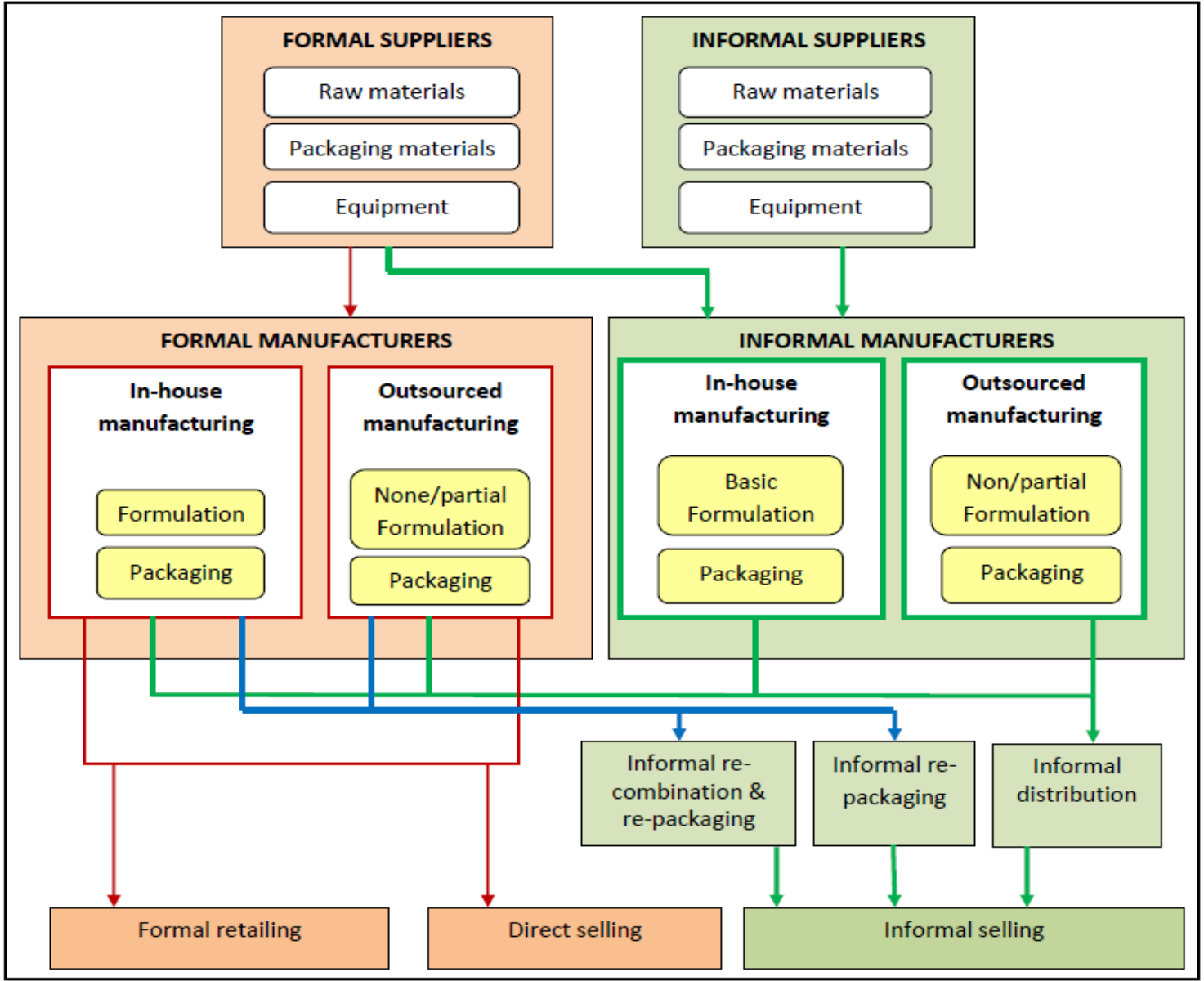
The productive value chain



The innovation system

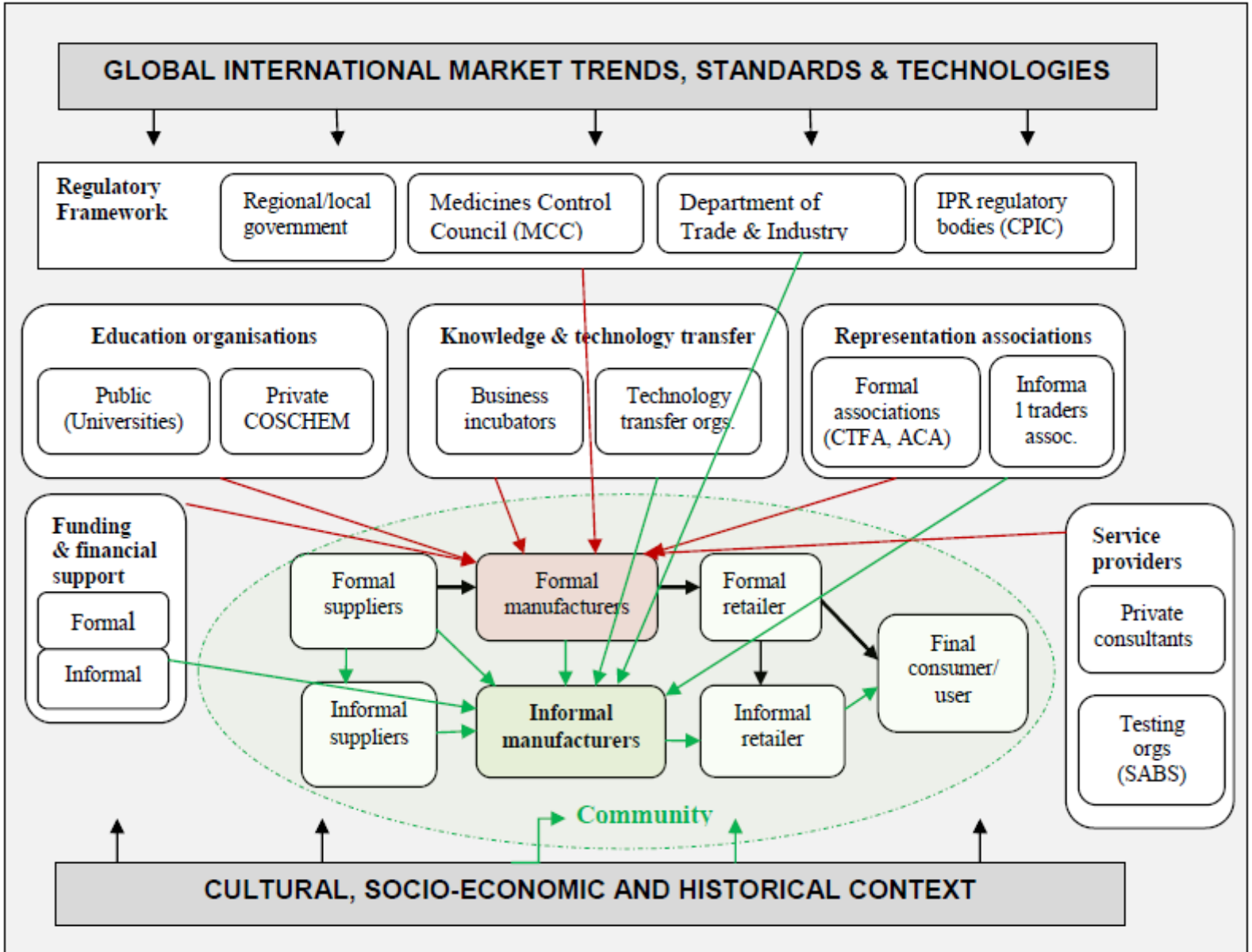
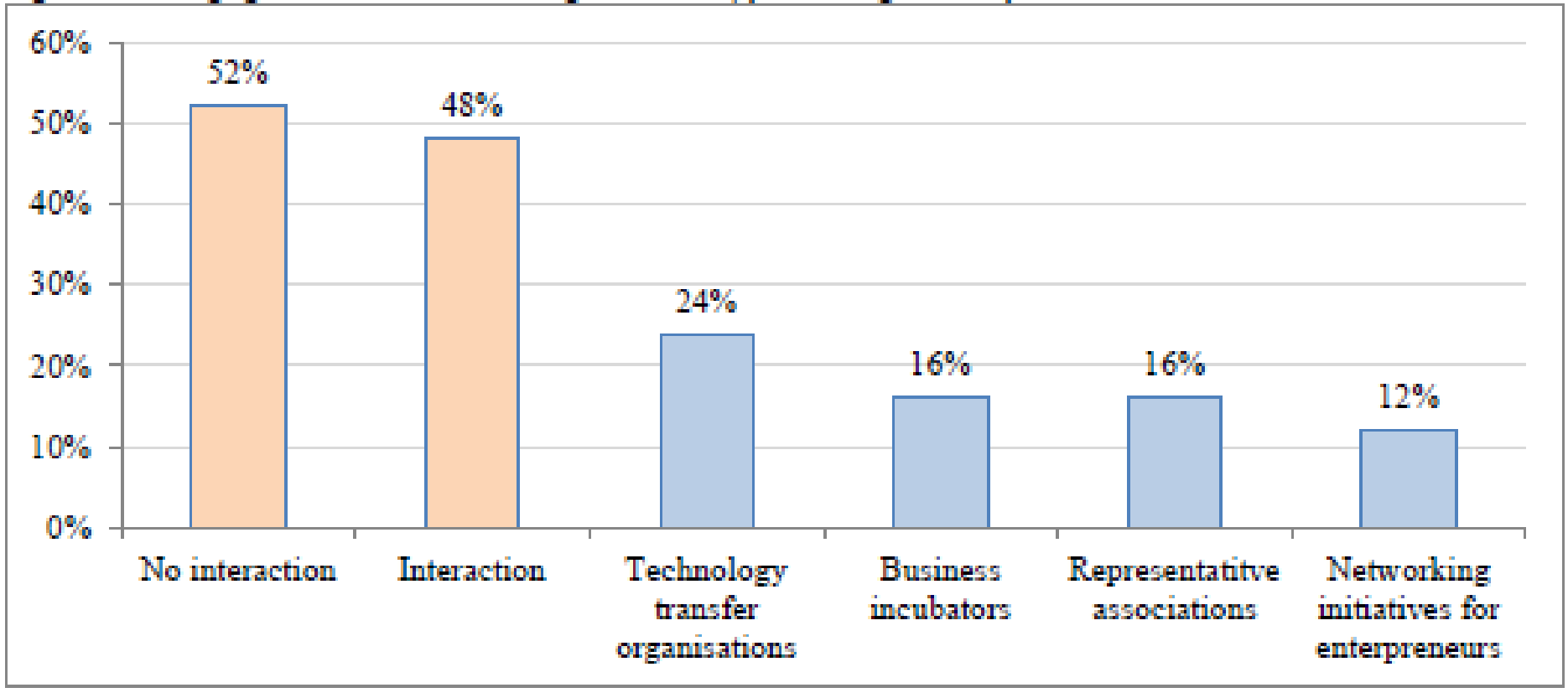


Figure 17: Engagement with formal organizations, percentage of respondents



Source: Fieldwork, 2013

Table 7: Significant improvements to products and processes, as reported by respondents

Improvements in products	Percentage of firms*
None	44%
Improved formulations	32%
Packaging and branding improvements	16%
Improvements in processes	
None	76%
Introduction of quality control mechanisms in manufacturing	16%
Acquisition or improvements in equipment	12%
Organizational changes in the structure of the production	8%

Source: Fieldwork, 2013

Note (*) respondents occasionally noted more than one improvement, therefore percentages do not add to 100%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Highlights on Innovation Activities

- Sources of knowledge
  - Formal sources
    - One third of the respondents had some type of tertiary education
    - Formal training by technology transfer organizations
  - Informal sources : learning by interacting, informal training/apprenticeships

- Features of innovation
  - Incremental
  - Reactive
  - Proactive Collaborative

Table 9: Obstacles to innovation, as reported by respondents

	Percentage of respondents*
Insufficient education and knowledge	32%
Lack of machinery and equipment	32%
Inadequate premises	28%
Access to finance	24%
Access to raw materials	16%
Physical access to larger markets	16%
Lack of testing facilities	8%
Lacking R&D facilities	4%

Source: Fieldwork, 2013

Note (*) respondents occasionally noted more than one obstacle, therefore percentages do not add to 100%

IP & mechanisms of knowledge appropriation

- Mostly semi-informal & informal mechanisms of knowledge appropriation (i.e. secrecy, effective sharing of information, division of duties, customer relationship management)
- 4 % held a trademark, and 4% IP contractual agreement with a contract manufacturer
- 76% did not consider that they owned the ideas their used
- 32% interested in making use of formal mechanisms for knowledge appropriation
- 80% of the interviewees reported to have their own brand - identified their product with a name and/or a logo, often displayed on the product.

Table 18: Appropriation mechanisms used by informal manufacturers, reported by respondents

	Percentage of firms*
Formal mechanisms	
Trademark	4%
Contractual agreements with contract manufacturers	4%
Semi-formal	
Secrecy	48%
Informal	
Effective sharing of information	72%
Division of duties	64%
Customer relationship management	56%
Packaging	20%

Source: Fieldwork, 2013

Sample size= 25 informal manufacturers

Note (*) respondents occasionally noted more than one mechanism, therefore percentages do not add to 100%

Policy implications

- Policy matters. Policies and government programs have an important influence on IE actors, as the regulatory framework shapes the broader reality within which informal entrepreneurs operate
- Policy frameworks mindful of informal institutions - processes of dissemination and appropriation of knowledge largely guided by community rules of engagement.
- Importance of intermediary organizations and building connections across the IS- technology transfer organizations, business incubators, training organizations, representative associations.
- IP policy alternatives must embrace diversity of needs in IE and scenarios with cost-benefit analysis.

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Thank you

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Спасибо

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