Fostering social entrepreneurship for development.
The case of Kunan: innovation that creates value.

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Abstract

In 2014, Telefonica’s Global Millennial Survey pointed out that 82% of Peruvian millennials felt that the government didn’t do enough to foster and retain talent. This comes as a surprise and a warning for authorities after Peru was named the fifth economy with the highest levels of entrepreneurship in the world, according to the Global Entrepreneurship Monitor (GEM) last year.

The investment in innovation in Peru is considerably low compared with what's made by the developed countries. This shows that most enterprises in the country (80% are microenterprises) are established as a means of subsistence and not to benefit from a new business model or opportunity identified. In addition, more than 60% of enterprises that are put in place close after a year.

In order to keep the entrepreneurship spirit alive and include an innovative approach, the government needs to define new policies that promote competitiveness, which includes helping new ideas formalize, simplifying processes and promoting mentoring.

What about social entrepreneurship?

There are no exact numbers on social entrepreneurship in Peru since the concept is still getting noticed. Some incubators have emerged but there is still not enough information about the social ecosystem. There are even some cases of entrepreneurs that do not see themselves as “social”.

Since Yunus pointed it out, there is a clear link between social entrepreneurship and economic development policies. Social enterprises have shown to be strong change agents that develop and apply innovation to solve unmet social needs, especially those who represent some of the biggest challenges of the country and are not being attended by the government.

This document presents the case of Kunan (www.kunan.com.pe), Quechua word that means “now” or “present”, a platform to promote, integrate and inspire social entrepreneurship amongst youngsters in Peru. Kunan was released in 2014 by the initiative of Telefonica del Peru, a telecoms company, and the Global Shapers Lima hub. Its vision is to consolidate the social entrepreneurship ecosystem in the country and to do so it involves the public, private and third sector.

One of the most valuable propositions of Kunan is the formation of a community, which establishes a network of entrepreneurs who share knowledge, learnings and challenges and generate synergies to grow their own enterprises. This really adds value to an
ecosystem in which there are still no clear paths to achieve growth and Kunan provides economic support, assessment, mentoring and dissemination in media, which comes as a great help to raise funds.

In a country where the fifth part of its population is still poor, fostering innovation to solve social challenges comes as a great help and could even impact on the definition of public policies regarding topics that have not been addressed by the government, such as web programming for women. In this scenario, platforms that make visible the efforts of social entrepreneurs and provide them with tools to grow are necessary and need to engage with the public and private sector in order to accelerate and assure a sustainable development.

**PERU, A COUNTRY OF ENTREPRENEURS**

Peru has been under the international spotlight for its sustained development in the last 20 years. Only in the last decade, its economic growth has registered an annual average of 6% (World Bank, 2015). This bonanza has been accompanied by major reforms in various sectors and, above all, a special commitment to the social inclusion of the most vulnerable populations. Between 2005 and 2013, poverty rates were reduced by more than half, from 55.6 % to 22.7 % of the population (National Institute of Statistics and Informatics, 2014).

According to the latest report from the International Monetary Fund (IMF), Peru ended 2014 with a growth of 2.4%, doubling the regional average, and this year it will grow by 3.8% according to international projections. While the country's prospects are positive, some measures are necessary to ensure that this growth is sustainable. Among them are the need to develop public policies, to accelerate decentralized development, to close gaps of infrastructure and to increase the quality of basic services such as education and health (IMF, 2015). By doing this, the government can prevent that the population that remains vulnerable to fluctuations in growth falls back in poverty.

The attitude of Peruvians towards the country has also experienced a significant evolution. A decade ago, 77% of the population and 88% of young people considered the possibility to migrate in search of opportunities (Ipsos Apoyo, 2004). This pessimistic scenario has changed not only for Peru but for Latin America as a region. In 2014, a global survey pointed out that 72 % of Latin American millennials have entrepreneurial spirit and believe that the best time of their countries is coming (Telefónica Global Millennial Survey, 2014).

Many international studies qualify Peru as a country of entrepreneurs. In fact, one of the most relevant surveys in this matter, the Global Entrepreneurship Monitor (GEM), named Peru the fifth economy with the highest levels of entrepreneurship in the world last year. The food industry is a great example of this entrepreneurship spirit. For the past years, many people from different contexts have pursued their dream of opening their own restaurants. Some of them have become famous brand names, with well-known chefs that have taken the Peruvian cuisine to an international level.

There are several factors that have influenced entrepreneurship in Peru: the economic climate, cultural and social norms, and financial support. This has promoted greater diffusion of the entrepreneurial culture in the media and a wider offer of diverse sources of financing for entrepreneurs. On the other hand, there are still some factors constraining entrepreneurship, such as government policies, financial support, and education and training (GEM, 2014).
PERU’S BET ON ENTREPRENEURSHIP AND INNOVATION

Peru aims to be the leader in the region in the innovation field and an important step towards this is the adoption of a law to promote it, considering that it is imperative to raise the productivity of the country (one of the most important economic variables for development). Also, the government has realized the lack of financial support for innovation, mainly because it is considered risky. In a country with weak institutions, the innovator is imitated in the short term, that’s why many entrepreneurs choose to imitate and not innovate.

Regarding public investment in innovation, it is important to emphasize the progressive increase in the budget allocated to this theme in recent years. The standard indicator to measure the effort in innovation of a country is the public spending on research and development (R&D), which in the case of the OECD (Organisation for Economic Cooperation and Development) countries is on average 2.4% of their Gross Domestic Product (GDP), and in the case of Latin America is on average 0.75%. For its part, Peru invests only 0.12% of its GDP1.

In 2007, for example, the government invested more than US$20 million to promote innovation, while between 2012 and 2016 more than US$500 million have been allocated through the National Council for Science, Technology and Technological Innovation (Concytec) and the National Institute of Agrarian Innovation (INIA).

This year is when most public efforts have been made in order to drive innovation. First, the government declared 2015 as the "Year of the Productive Diversification and Fortification of Education", which implies a particular support and commitment to innovation, led by the Ministry of Production, to identify and promote new productive activities that are additional growth drivers.

In February, the platform "Innovate Peru" was launched in order to promote business research and the development of projects of productive innovation and knowledge transfer through competitive funds2. With this platform, the government aims to strengthen the actors who are part of the innovation ecosystem and facilitate the interrelation between them.

Finally, in July the government approved the implementing regulations of the Law No.30309 that seeks to encourage companies to increase their investments in research and development for innovation (R&D), so that for every US$1,000 spent on R&D the state recognizes US$1,750. This is an additional deduction to 100% of the expenses incurred by companies, regardless of their size or category, which reduces the net income amount from which the income tax is calculated3.

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2 The three funds that "Innovate Peru" offers are Innovation Project for Competitiveness (FINCyT), Fund for Research and Development of Competitiveness (FIDECOM) and Framework for Innovation, Science and Technology (FOMITEC).
3 The law No. 30309 that promotes scientific research, technological development and technological innovation was approved in February of 2015.
SOCIAL ENTREPRENEURSHIP AND INNOVATION

One of the first promoters of the term “social entrepreneur” in the 1980s was Bill Drayton, founder and CEO of Ashoka. He believed in the power of a person with a high-potential idea tackling a social problem and with Ashoka he started a rigorous search and selection of these leaders in order to accelerate their initiatives. He founded the world’s largest network of leading social entrepreneurs in order to promote collaboration. His most emblematic quote expresses the spirit, ambition and persistency of social entrepreneurs: “Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry”.

An interesting description of how social entrepreneurs approach problems was introduced in the book “How to Change the World: Social Entrepreneurs and the Power of New Ideas”. In this publication, a social entrepreneur is described as a person who identifies resources where people only see problems and unleashes resources in the communities that are being attended (Bornstein, 2003). According to this description, social entrepreneurs combine the savvy, optimism and resourcefulness of business entrepreneurs, but pursue “social profit” rather than financial profit.

Another important referent when it comes to social entrepreneurship is Muhammad Yunus, a banker and economist from Bangladesh who developed the concept of microcredit. He used the term “social business” to describe a model of enterprise which focuses on the supply of goods and services to poor customers and reinvests 100% of its profits in the business to further its social mission (Yunus, 2010).

Unlike traditional approaches to social issues proposed by NGOs and other social movements, social entrepreneurship presents innovative solutions based on the market (products or services), that generate high growth and profitable business opportunities (Murray, 2010). The idea of charging the beneficiaries for a product or service helps them value it and provides a source of revenue to the enterprise that will help achieve the social mission.

For the purpose of this paper, the definition of social entrepreneurship is the application of management principles and skills and innovation to create greater social value and generate a systemic change (Emerson, Twersky, 1996). This definition clearly states that business entrepreneurs and social entrepreneurs are similar in their way of doing things but differ in their primary objectives. While the first group seeks to change the face of business by creating new industries and build respected companies in order to maximize their profits, social entrepreneurs aim to contribute to the solution of society’s most pressing social problems that are being mishandled or ignored by other private or public organizations.

Applying management principles for social change means that once the innovative approach or solution has been designed and tested, the next step is to implement it on a large scale. This is a very important contribution of social entrepreneurship for two reasons. The first one is because most current social problems are the same in several parts of the world and need a solution in a global scale. Second, other aspects of society have been globalized both at a governmental and business level, demonstrating that something that works in a city or country can be applied to another one.
Like traditional companies, social enterprises are growth-oriented, governed by efficiency, the ability to provide long-term viability and achieve a quick return on investment. They may adopt the legal structure that best suits their needs for achieving their social mission, since most countries don’t have special regulations for social enterprises. The real challenge is to establish a funding model that allows them to cover the costs of operating and generate profit to reinvest it for fulfilling their mission.

To come up with a model that assures the sustainability of the organization can be challenging, and that’s why entrepreneurs are always moving between social impact and economic benefit (Koteles et al., 2014). Some may opt to establish mixed models, which include the incomes generated by the product, service or program that the organization offers and the use of innovative fundraising techniques. What is common among them is that they are aware that in order to achieve their missions, they have to develop business models that free them from grants or donations dependency, unlike traditional non-profit organizations.

Another key concept when defining social entrepreneurship is “systemic change”, as it refers to the transformation of all the important elements around a specific issue. It means changing conceptions, behavior patterns and the structures that generate a problem (Westley, 2008). It’s going beyond the superficiality of the problem and aiming its causes. To achieve it, the understanding of the problem has to be comprehensive and the proposal or solution must be disruptive and catalytic (Christensen, 2006).

**KUNAN: FOSTERING SOCIAL ENTREPRENEURSHIP IN PERU**

In parallel to the emergence of new business models with a social purpose, new mechanisms of support for social entrepreneurs and social innovation have risen worldwide, and Peru has not lagged behind in this. Several universities already offer training programs and research activities on social entrepreneurship, there are new co-working spaces that gather entrepreneurs working on different topics and there are some organizations that scout high-potential social entrepreneurs in order to accelerate their growth and impact.

In this scenario, two relevant organizations in the country decided to combine efforts in order to establish not only a traditional accelerator but a platform that impulses, integrates and inspires social entrepreneurship amongst youngsters in Peru. Kunan was born in 2014 and is promoted by Telefonica, a telecom company present in 21 countries worldwide including Peru, and the Global Shapers Lima Hub, a group of young leaders chosen by the World Economic Forum that aims to catalyze other initiatives led by youngsters in the country.

The word “kunan” means “now” or “present” in Quechua, the language of the Incas. It was chosen because of the premise that young people are the future, and the future is being written now, in the “present”. Kunan seeks to be that impulse and motivation that young people need in order to deliver their talent, passion and commitment to the country’s development.

Kunan has three lines of action:

- To impulse: we seek social enterprises with the greatest potential to generate a huge social impact in the country, to be sustainable and to scale in order to help
them get to the next level through holistic support with everything that entrepreneurs need to grow.

- To integrate: the entrepreneurial process is challenging and often the simple moral support from a group that experiences a similar situation can be comforting and motivating. Kunan has built a community of entrepreneurs based on trust that share knowledge, experiences, learnings, difficulties and establish synergies.
- To inspire: we want to position social entrepreneurship as an option for personal and professional development of young people and motivate many more to dare to undertake a new project and generate a positive impact in their environment.

**KUNAN’S MODEL**

- **IMPULSE**: Identification, evaluation and acceleration of young entrepreneurs with transformative social impact potential.
- **INTEGRATE**: Establishment of a community of young social innovators that share knowledge and help each other.
- **INSPIRE**: Spread what social entrepreneurs are doing in order to motivate others and involve the public and private sector.
In a year, Kunan has achieved significant results and consolidated its position in the social entrepreneurship ecosystem in Peru. Some of its main achievements are the following:

- In its first call, Kunan identified 170 applicants from social enterprises that impact the 24 regions of Peru. This is the first step for the development of a database of social enterprises in the country, which currently does not exist.
- After its first call, Kunan built a community with more than 60 social entrepreneurs who organize events, workshops, establish alliances, among other activities. It aims to be a space for exchanging experiences and the development of skills, where entrepreneurs are the protagonists and the ones who catalyze it. Therefore, we seek to create a common identity that makes the entrepreneurs feel part of a group of young people supporting each other.
- Strategic alliances with important organizations from the private, public and third sector that support, promote and are committed to Kunan. In 2015, Kunan established a strategic alliance with the Ministry of Production which is important to involve the government in the promotion of social entrepreneurship.
- High media visibility, with more than 80 media impacts in one year. Kunan recently launched a YouTube channel that tells the stories of the entrepreneurs of its community and it has obtained over 40,000 views with its first three episodes. These episodes are now being shown in TV Peru, the official TV channel of the State with national coverage.
- Great coverage in the online world, with more than 250,000 visits to the web in one year. The hashtag #Kunan has also been a national trend in Twitter two times.
- One of the first social enterprises accelerated by Kunan was Laboratoria, an initiative that teaches young women from low-income backgrounds how to code and helps them be part of the digital economy by hooking their talent with firms working in the tech sector. This is a visionary proposal for the country taking into account that the access to higher education in Peru does not reach young people from poor households and that only 7 percent of Peru’s tech-industry employees are women, according to a 2014 Mozilla Firefox survey.

Laboratoria is a great example of how a relevant problem in the country – the lack of access to education and gender inequity – can be transformed into an opportunity. Their work and innovative model has rewarded them with grants from Google and the National Council for Science, Technology and Technological Innovation (Concytec) in Peru. After one year of working with Kunan, Laboratoria will form 100 women coders this year, is now present in Arequipa and Lima, two of Peru’s most important cities, and has scaled up to two other countries in Latin America, Chile and Mexico, proving that a great idea that tackles a relevant challenge and obtains important results has the opportunity to generate the right alliances that can help it grow. In the near future, it wouldn’t be a surprise if Laboratoria has managed to influence educational policy, since public eyes are set on this topic and there’s a growing demand for web programmers in the country and worldwide.

By helping enterprises such as Laboratoria, Kunan’s vision is to set a before and after in the social entrepreneurial ecosystem of Peru and, steadily, generate spaces and networks to create and collaborate with other organizations in the private, public and civil society on the issue of innovation and entrepreneurship.
In 2014, Peru dropped four positions in the global competitiveness ranking of the World Economic Forum, and descended from position 61 to 65 in a total of 144 countries. When analyzing the results, the institutional pillar is the one that descended the most, since it had a fall of nine positions from 109 to 118 and it is the worst placed among the other pillars of the country (infrastructure, health and education, business climate, innovation, labor market efficiency, technology availability, etc.) The country needs some holistic reforms in critical areas such as education, health, science and technology, among others. However, these reforms must rely on a solid institutional framework that sustains them, which currently does not exist.

Institutionalism refers to how simple and transparent are the rules for individuals in a country, on issues such as property rights, administration of justice, public security, political stability, etc. The lack of institutionalism is what causes governments to quickly response to demands and try to solve problems with a shot-sighted and top-down approach, which involves bureaucratic processes that often obstacle decisions and actions, and only having in mind their five-year election cycle.

This is one of the first things governments can learn from social entrepreneurs: they commit to building great organizations over time with an approach that promotes creativity and innovation, having in mind that they want to succeed in finding a solution for a social problem or need. The role of the entrepreneur behind the idea is crucial for its success, since ideas always need someone pushing them forward and trying hard so that they can become real.

A strength of social entrepreneurs is how they address problems from the bottom up, researching, interacting with them on the ground level, questioning what they are doing, coming up with ideas, designing, testing and then continuously improving their products until they see positive results, which with time and strategy will potentially lead to scale the initiative. Governments, on the other hand, don’t have the flexibility of social entrepreneurs. They often implement ideas before testing and then adapting them, and because of their top-down approach they don’t completely understand all the details involved.

When it comes to influencing public policy, social entrepreneurs can achieve this at a local, regional or national level. Everything will depend on the visibility of the problem being addressed and the systemic changes been made, the social impact of the initiative, the growth that it has reached, the profile of the team behind it and the ability to generate strategic alliances with key stakeholders from different sectors.

This is where the opportunity comes for social entrepreneurs when they have already proved to be successful with their solutions and innovations. This can become their big step towards scaling-up their impact to a wider range of public. There are still many challenges of the country and proved-to-work solutions can be noticed by governments in order to focus on a problem that they had not been able to attend. There is one thing needed for this: public awareness.

In order for social entrepreneurs to gain more attention from the private and public sector and continue to expand their network, there needs to be more people talking about social innovation in conferences, workshops and the media. It is often useful to form a movement
or a community, just as Kunan did, in order to get together different profiles of social entrepreneurs, working on different topics, going through various challenges but having in common the vision to build a better country with the same opportunities for everyone. The key aspect for this to work is to be able to build trust among the group. Trust allows innovation to emerge, and it will lead to new alliances and bonds for the benefit of the community.

Once the mass of participants becomes bigger, other relevant actors around will notice what’s going on and be attracted to join or help the ecosystem. Is it easier to get the public or private sector involved when the innovations have already been tested and prove they work, since companies and public entities in the country are reluctant to take risks or take a chance on innovation.

Another important aspect for social entrepreneurs is to be able to grow their organization into a strong and referent one so that they can be considered the leaders in their fields. This can help a lot when spreading ideas and generating replicates. Replication is not the only indicator that it’s spreading but it’s definitely one indicator that an idea has generated interest and has gone beyond its immediate context.

Finally, an important approach that social innovators could benefit from is better communication and sharing of information from the government. Some structures of public entities can be difficult to figure out and social entrepreneurs might not be able to understand the government’s funding priorities and requirements to invest when looking for a possible alliance.

**CONCLUSIONS**

The term "social entrepreneurship" is nowadays heard more than ever. People, especially millennials, are more aware of social problems and have more opportunities to address them. With the low faith in governments, they have opted to learn new ways to help and started aligning what they are good at with what can make a real impact, taking advantage of changing circumstances worldwide such as the growth of and educated middle class and the spread of information technology that can unleash innovation in different ways.

Innovation and entrepreneurship, based on creativity and collaboration, are the basis for new business models of companies, as they are critical to its sustainability and projection. These tools are not an end in themselves, but an engine that mobilizes the development of new solutions that the world needs to address the ongoing challenges and opportunities presented.

Innovation and entrepreneurship applied to different problems can be decisive in transforming the way we think about our world, how we design public policies and work to solve our difficulties. Even though the social entrepreneurship ecosystem in Peru is just emerging, there are relevant actors who are attracting attention to this topic.

Now, the duty is to be able to take all the available tools and integrate them into the vision of the world we want. We must seize all opportunities to participate and collaborate in spaces where solutions to the needs of individuals, communities and organizations are developed. And we must do this with the conviction and speed needed to make the changes happen soon.
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