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07 March 2018

HON. PETER M. UNABIA
Chairman, Committee on Small Business and Entrepreneurship Development
House of Representatives (17th Congress)
Batasan Hills, Quezon City

Dear **Congressman Unabia**:

This is in connection with your letter dated 22 January 2018 regarding Comments on:

1) **House Bill No.450 And 1105** entitled, "An Act Ordaining the Promotion of Social Enterprises to Alleviate Poverty, Establishing for the Purpose the Poverty Reduction Through Social Entrepreneurship (Present) Program and Providing Incentives and Benefits Therefor", *introduced by Reps. Jose Christopher Y. Belmonte And Teddy Brawner Baguilat*

2) **House Bill No. 1839** entitled, " An Act Ordaining the Promotion and Development of Social Enterprises in Order to Ensure Poverty Reduction, Providing The Mechanisms Therefor, and for Other Purposes", *introduced by Rep. Gary C. Alejano*

3) **House Bill No. 2307** entitled, "An Act Ordaining the Promotion of Social Enterprises to Alleviate Poverty, Establishing for the Purpose the Poverty Reduction Through Social Entrepreneurship (Present) Program and Providing Incentives and Benefits Therefor", *introduced by Rep. Lawrence Lemuel H. Fortun*

4) **House Bill No. 4729** entitled, "An Act Ordaining the Promotion of Social Enterprises to Alleviate Poverty, Establishing for the Purpose the Poverty Reduction Through Social Entrepreneurship (Present) Program and Providing Incentives and Benefits, and Appropriating Funds Therefor", *introduced by Rep. Gus S. Tambunting*

5) **House Bill No. 6709** entitled "An Act Ordaining the Promotion of Social Enterprises to Alleviate Poverty, Establishing for the Purpose the Poverty Reduction Through Social Entrepreneurship (Present) Program and Providing Incentives and Benefits Therefor", *introduced by Rep. Arthur C. Yap*

Please find the attached PIDS comments written by Dr. Marife M. Ballesteros.

We hope you find the comments in order.

Very truly yours,

Celia M. Reyes

CELIA M. REYES
President

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Comments on House Bills Nos. 00450, 01105, 1839, 2307, 4729, 6709 on **Ordaining the Promotion and Development of Social Enterprises for Poverty Reduction, Providing the Mechanisms and Incentives Therefor, and for Other Purposes.**

1. Social enterprises are being promoted globally as major agents for inclusive growth and sustainable development. There is yet no global data on the sectoral contribution of SEs to the economy but it has been shown from several cases that SEs had made notable achievements and outcomes on poverty alleviation and sustainable development in Europe, North America, South America, and Asia. Thus, the objective of the proposed bills to "pursue a policy environment that will support the development and growth of social enterprises in the country" is commendable.

2. However, there has to be a consensus on what are Social Enterprises (SE). The composition of SE varies from country to country. Some countries adopt broad components of SEs to include both profit and non-profit as well as different organizational types such as: cooperatives, associations, small enterprises, MFI and mutual benefit organizations (Kerlin 2010). Other countries have limited categories of organizations considered social enterprises. In the United States, social cooperatives are not part of the social enterprise discourse (Kerlin 2010). In the United Kingdom, specific types of companies such as those involved in financial intermediation, insurance and pension, primary education, trade unions, political and religious organizations, among others, are excluded in the list of social enterprises (IFF Research 2005). The United Nations, which recently launched an Agenda for Social and Solidarity Economy (SSE) adopts four classifications of enterprises in the social economy, which are: cooperatives, mutual benefits societies, associations and social enterprises (Fonteneau et al. 2011). In the Philippines, SE advocates suggest five types of enterprises that includes: social cooperatives, fair trade organizations, MFIs, Trading and Development companies (TRADOS), New generation social enterprises (differentiated from others as those firms established and managed by "new" social entrepreneurs).

3. The proposed bills specifically define social enterprise as a "Social Enterprise with the Poor as Primary Stakeholders" or SEPPS. The definition talks about "poverty reduction/alleviation; of redistribution objective and of "sectoral and societal transformation" but the definition focuses mainly on "poverty reduction as the principal objective". This objective is not the only principal dimension of SE. SE should be defined by three principal dimensions, which are: (1) *social dimension* or the capability of the enterprise to satisfy human needs or address pressing social needs; (2) *entrepreneurial*

Comments were written by Dr. Marife M. Ballesteros, Vice President of the Philippine Institute for Development Studies.

dimension or continuous productive activity so that the social need can be provided on a continuing basis; and (3) *governance structure* that defines how profits are shared and empowerment of the people in the decision- making process. ALL these dimensions should be satisfied for a firm to be considered SE. Otherwise, the enterprise is no different from non-profit organizations or traditional for-profit firms.

4. The operationalization these dimensions should be made clear in the law. The social dimension is possibly the easiest to satisfy as the firms can target the poor or the marginalized sector as clients or workers. However, not all firms or institutions that provides services to the poor or hire the poor as workers should be included in the definition. It has to be emphasized that the target of poor household or the social mission of firms becomes only relevant if the entrepreneurial and governance features are present.

5. On the SE entrepreneurial activity, it is required that substantial part of capital comes from the private sector and not from the government or from grants/donations. The earnings have to be generated from commercial activity and not from grants or donations. In the UK this proportion of income from earnings was earlier set at 50% then lowered to 25%. The lowering expanded the number of firms classified as SE but created a lot of criticism. In Canada, the proportion is much higher with 75% of earnings from the enterprise business activity.

6. On the governance structure, this refers primarily to the transfer of wealth. This can be operationalized by assessing how much of the enterprise earnings is reinvested back to the firms or as benefits to the workers. The theory is that a substantial portion of the earnings should be returned to the firm to pursue the social objectives rather than redistributed to owners/capitalist.

7. To ensure that these dimensions remain the key features of a SE, there has to be a regulatory body to oversee the operations of SE. The regulatory powers over SE have not been explicitly mentioned in the proposed bills. This regulatory function cannot be subsumed in the proposed Social Enterprise Development Council (or SEDC) since regulatory powers are not within the mandate of a "development council". The Securities Exchange Commission (SEC) could be the agency that can be considered to regulate SEs.

8. On the development and growth of the sector, the bill proponents can refer to the experiences of the privately-operated Foundations that have supported the development of SE. In particular, the BPI Foundation *Sinag* Program aims to empower social entrepreneurs

to create business that are intended to uplift marginal communities or households. It is supported by a consortium of NGOs, private individuals, academic and training institute. The Foundation through the Sinag program provides grants, training, educations, networks, etc. The government can tap these Foundations that have the existing manpower and resources to develop and grow SEs. It can also provide incentives so that more banks; other financial or non-financial institutions are able to established similar Foundations or scale-up programs such as *Sinag*. This is a better alternative or option than government creating its own agency or council. There is no need to create a Social Enterprise Development Council or a National Center of Social Enterprise since there are already private sector interest/activities in this area.

9. The government can directly support SE by expanding the Magna Carta for MSMEs to include SEs especially with respect to tax incentives to SEs and venture capitalists, share in the procurement of goods and services supplied to government, dedicated lines for permits and licensing, access to technology and markets and other similar benefits given to MSMEs.

10. For your information/appropriate action

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