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Comments on Senate Bill 782 *An Act Institutionalizing the Poverty Reduction Through Social Entrepreneurship (PRESENT) Program and Promoting Social Enterprises with the Poor as the Primary Stakeholders* introduced by Senator Juan Miguel Zubiri

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1. The bill proposes to establish a flagship anti-poverty program through social enterprises, which have shown positive effects on poverty alleviation in Asia, Europe and South America. The intent of the proposed bill to enable the development of social enterprises in the country is noteworthy.

2. As mentioned in the proposed bill, there are already existing social enterprises (SE) in the Philippines and the important provision of the proposed bill is its recognition of social enterprise as a development strategy for economic growth and poverty alleviation. Thus, SEs like MSMEs, should similarly be given access to funding and other incentives from the government.

3. However, the bill does not give a clear distinction between MSMEs and SE. SE as defined in Section 3 (g) of the proposed bill is too broad and can also include MSMEs. MSMEs can also target the poor as clients and both SE and MSME are similar in form and structure (i.e., single proprietorship, partnership cooperative, or corporation). Moreover, both MSME and SE must be profitable to be sustainable. While SEs include a component of reinvesting profits in the business and the community, it's not mandatory (*as indicated in the and/or statement*). Moreover, the clients/poor can only directly benefit from the profits of a business if the enterprise is a corporation or a cooperative, whereby the clients can themselves be stockholders. Therefore, instead of a new legislation, we may just need to revise the Magna Carta for MSMEs (Republic Act 6977) to include SEs.

4. Under a revised Magna Carta for MSMEs (with SE), there would be no need to create a Social Enterprise Development Council (*Section 5*). Instead, existing offices/bureaus under the Department of Trade and Industry (DTI) can be expanded and the proposed Center for Social Enterprise Development (*Section 6*) can be transformed into a program fund (a separate line budget) to be managed by the DTI.[2] This arrangement will also allow DTI to

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[2] Staff for this program can be made co-terminus with the program.

efficiently managed the Social Enterprise Development Fund (SEDF) which as proposed will be part of the DTI budget (Section 7).

5. The PIDS (by the same author) had submitted comments to the House version of the PRESENT bill in 2018. It argued that from the economics perspective, SE is defined by three principles that make them distinct (Besley and Ghatak 2016)[3]: (1) *social dimension* or the capability of the enterprise to satisfy human needs or address pressing social needs; (2) *entrepreneurial 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 a non-profit organization or a traditional for-profit firm.

6. The operationalization of these dimensions should be made clear in the law. The social dimension is a necessary condition, that is the enterprise is established to respond to a need of the poor/marginalized sector (e.g. access to financing; employment or livelihood). This condition may be easy to satisfy but not all firms or institutions that provide services to the poor or hire the poor as workers can be considered SE. The entrepreneurial and governance features must also be present.

7. 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 bulk of earnings have to be generated from commercial activity and not from grants or donations. In the UK this proportion of income from earnings was at 50%. In Canada, the proportion is much higher with 75% of earnings generated from the enterprise business activity.

8. On the governance structure, this refers primarily to an organizational structure that enables transfer or sharing of wealth. This can be operationalized by assessing how much of the enterprise earnings is reinvested back to the firms or how it benefits 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 or that workers benefit from the earnings through corporate shares or increase in benefits. The Securities Exchange Commission (SEC) could be the agency assigned to oversee how SEs utilize capital and earnings and how these are shared.

9. 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

[3] Besley, T. and M. Ghatak (2016) "Profit with Purpose? A Theory of Social Enterprise" London School of Economics. American Economic Journal: Economic Policy

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 establish similar Foundations or scale-up programs such as *Sinag*.