

## KEY POINTS

- The Government of the Philippines recognizes the importance of social enterprises, which are included in the Philippine Development Plan 2017–2022 strategy on reducing inequality.
- Social enterprises in the country are mostly micro, small, and medium-sized enterprises (MSMEs) that are limited in size and scale. Some are not financially viable.
- Social enterprises do not have targeted support and are covered by existing MSME programs.
- The government's support for strategic, timely, and market-based opportunities can enable social enterprises to extend their impact to the most vulnerable populations and help address pressing social and environmental challenges in the Philippines.

## Road Map for Strengthening Social Entrepreneurship in the Philippines

Yukiko Ito

Senior Social Development Specialist  
Social Development Thematic Group  
Thematic Advisory Service Cluster  
Sustainable Development and  
Climate Change Department  
Asian Development Bank

Durreen Shahnaz

Founder and CEO  
IIX Foundation Limited, Singapore

## SOCIOECONOMIC CHALLENGES AND OPPORTUNITIES IN THE PHILIPPINES

The Philippines is at an important crossroads of development. While it is among the fastest growing economies in Asia, growth has not been inclusive—the country has the highest inequality rate in the Association of Southeast Asian Nations, with 22 million Filipinos living below the poverty line.<sup>1</sup> Meanwhile, the Philippine economy faces other negative trends. It has dropped three places on the World Economic Forum's Global Gender Gap Report for 2017,<sup>2</sup> and grapples with a record-high inflation rate of 6.7%.<sup>3</sup> Official development aid has declined as the Philippines is anticipated to graduate from low-middle income status and attain high-middle income status.<sup>4</sup> There is a growing need to build sustainable solutions for national development while leveraging global commitments to mobilize innovative finance at scale for the Sustainable Development Goals (SDGs).

<sup>1</sup> World Bank. 2015. Philippines' Poverty Rate Declines; More Well-Paying Jobs and Opportunities Needed. Washington DC. 30 May. [www.worldbank.org/en/news/press-release/2018/05/30/philippines-poverty-rate-declines-more-well-paying-jobs-and-opportunities-needed](http://www.worldbank.org/en/news/press-release/2018/05/30/philippines-poverty-rate-declines-more-well-paying-jobs-and-opportunities-needed).

<sup>2</sup> World Economic Forum. 2017. The Global Gender Gap Report 2017. Cologne/Geneva. [http://www3.weforum.org/docs/WEF\\_GGGR\\_2017.pdf](http://www3.weforum.org/docs/WEF_GGGR_2017.pdf).

<sup>3</sup> Alegado, S. and C. Jiao. 2018. There's an Inflation Crisis Brewing in the Philippines. *Bloomberg*. 13 September. [www.bloomberg.com/news/articles/2018-09-12/inflation-crisis-brewing-in-the-philippines-is-hurting-consumers](http://www.bloomberg.com/news/articles/2018-09-12/inflation-crisis-brewing-in-the-philippines-is-hurting-consumers).

<sup>4</sup> World Bank. 2018. *The World Bank in Middle Income Countries*. Washington D.C.: World Bank. 27 March. <https://www.worldbank.org/en/country/philippines/overview> (accessed 10 October 2018).

## ROLE OF SOCIAL ENTERPRISES IN ACHIEVING NATIONAL GOALS AND THE SUSTAINABLE DEVELOPMENT GOALS

There is a large opportunity to capitalize on the potential of social enterprises to address development gaps and achieve AmBisyon Natin 2040, the strategic vision set out by the National Economic and Development Authority of the Philippines that aligns with the SDGs.<sup>5</sup> Defined as financially sustainable enterprises that intentionally generate positive social or environmental impact, social enterprises have been recognized nationally and internationally for their potential to achieve development goals, as seen in their inclusion in the Philippine Development Plan 2017–2022.<sup>6</sup>

## STATE OF SOCIAL ENTERPRISES IN THE PHILIPPINES

According to one estimate, there may be as many as 164,473 social enterprises in the Philippines, constituting 17% of the 987,974 registered companies.<sup>7</sup> Of these social enterprises, 70% operate as micro, small, and medium-sized enterprises (MSMEs), 23% as nongovernment organizations, and 6% as cooperatives.<sup>8</sup> These figures are based on a definition of social enterprises that includes financially unsustainable entities. Most social enterprises remain limited in size and scale due to critical gaps in (i) access to capital, (ii) innovative financial mechanisms to unlock additional capital, (iii) ecosystem knowledge of social enterprises, and (iv) data on social enterprise impact.

## CURRENT STATE OF PUBLIC SECTOR SUPPORT

As social enterprises have no legal designation in the Philippines, they do not receive targeted support from the public sector beyond what is available to regular businesses or MSMEs. Various government agencies (such as the Department of Trade and Industry, the Department of Agriculture, the Department of Social Welfare and Development, and the Cooperative Development Authority) have implemented MSME programs and policies that indirectly affect social enterprises. However, even with existing MSME programs, there is a need for greater coordination and collaboration between agencies.

Social enterprises face a double burden—they deal with the problems MSMEs face (such as an ambiguous tax regime,

challenges in ease of doing business, and inadequate funding mechanisms) and must also pursue social goals. In 2016, an attempt was made to pass Senate Bill No. 176 or the Poverty Reduction through Social Entrepreneurship (PRESENT) Bill which promotes an environment conducive to the development and growth of a vibrant social enterprise sector. It did not receive the appropriate approvals due to the lack of alignment on the definition of “social enterprise among different stakeholders and the lack of clarity on how the proposed benefits should differ from those for MSMEs” (footnote 7).

## There is a large opportunity to capitalize on the potential of social enterprises to address development gaps and achieve AmBisyon Natin 2040

However, policy for MSMEs seems to be moving in the right direction. Republic Act No. 11032 or the Ease of Doing Business and Efficient Government Service Delivery Act of 2018 has been passed and signed into law and is anticipated to provide some relief to MSMEs and social enterprises.<sup>9</sup> Republic Act 11057 or the Personal Property Security Act allows for the expansion of the types of assets that can be used by MSMEs as collateral when applying for bank loans.<sup>10</sup>

## PUBLIC SECTOR RECOMMENDATIONS

The public sector plays a crucial role in creating an enabling environment for social enterprises through policies, programs, and financial support, and by promoting market-based solutions that bring in private, multilateral, and other actors to foster the growth of social enterprises.

The following recommendations aim to enable social enterprises to scale up and work with larger ecosystem actors such as inclusive businesses, use blended finance to unlock private sector capital, and leverage multilateral funding opportunities to advance gender equality. To meet critical gaps, the public sector can implement:

- **Customized Technical Assistance Services.** Government agencies can support the provision of tailored, end-to-end investment-readiness services by technical assistance providers for social enterprises through grant funding. This

<sup>5</sup> Government of the Philippines, National Economic and Development Authority. 2017. *Philippine Development Plan 2017–2022*. Pasig City. p. 21–1.

<sup>6</sup> Footnote 5, p. 9–1.

<sup>7</sup> British Council. 2015. *A Review of Social Enterprise Activity in the Philippines*. Pasig City. p. 13.

<sup>8</sup> British Council and Philippine Social Enterprise Network. 2017. *Reaching the Farthest First: The State of Social Enterprise in the Philippines*. Manila: British Council. p. 57.

<sup>9</sup> Government of Philippines, Department of Trade and Industry. 2018. *RA 11032 Briefer*. Manila. <https://www.dti.gov.ph/82-main-content/11956-ease-of-doing-business#ra-11032-ease-of-doing-business-and-efficient-government-service-delivery-act-of-2018> (accessed 28 November 2018).

<sup>10</sup> Congress of the Philippines. 2017. *Republic Act No. 11057*. Manila. [http://www.senate.gov.ph/republic\\_acts/ra%2011057.pdf](http://www.senate.gov.ph/republic_acts/ra%2011057.pdf)

way, the government can create a pipeline of financially sustainable social enterprises that promote market-based solutions for development. Regional technical assistance-providing market leaders have demonstrated that every grant dollar in funding can unlock several times the amount of private sector capital, if it is the right kind of technical assistance that is then linked to an investment-raising platform.

- **Inclusive Business-Sustainable Supply Chain Program.** To scale up effective models of engagement between inclusive businesses and social enterprises, and enable social enterprises to grow into inclusive businesses, the government can issue an official mandate to integrate social enterprises into inclusive businesses and provide funding for a program that brings in other ecosystem players such as intermediaries to accelerate the growth of ethical, sustainable social enterprise partnerships. This would be in line with government priorities that focus on the development of inclusive businesses to create economic opportunities for the underserved.
- **Sustainability Bond for Women's Empowerment.** A sustainability bond is an innovative blended finance instrument and debt security that pools together underlying borrowers (a group of social enterprises) focused on specific development outcomes, such as women's livelihood or climate resilience. The government could lead the issuance of a series of sustainability bonds by acting as a guarantor or first loss capital provider for the whole or a part of the bonds, which reduces risks and draws in a wide range of private sector investors to participate in the issuance. It can be sold to retail investors and the Filipino diaspora through a commercial banking partner.
- **Buffer Fund for Catastrophe Resilience.** Government agencies with a mandate to support disaster relief can set up capital up front to structure a buffer fund that provides small emergency loans to victims of disasters. These loans can be disbursed via prescreened microfinance institutions and repaid by the victims upon their recovery. The government and donors can also make ongoing contributions to the fund.
- **Social Enterprises Knowledge Sharing Institute.** To improve the understanding of social enterprises and their potential role in development via partnership opportunities among multisector players, government agencies can provide the upfront grant funding required to set up the knowledge sharing institute. This will provide online and in-person training modules for ecosystem actors and thought leadership research. For example, the Board of Investments could set up an institute that can develop business intelligence and facilitate networking to spur closer collaboration between inclusive businesses and social enterprises.

- **Advisory for Ecosystem Actors by Intermediaries.** To advance knowledge development and help ecosystem players to better support social enterprises, government agencies can offer and promote advisory services provided by intermediaries that have concrete experience. This can provide insight into how to allocate resources to maximize impact.
- **Digital Impact Assessment for Gender Lens Initiatives.** To give beneficiaries a voice in building solutions, the government can provide funding in advance to those with expertise in impact measurement and gender-lens approach to build a tool that uses mobile technology for data collection and impact assessment, while incentivizing self-reporting and participation. The digital impact assessment tool can benefit different ecosystem actors, for example by using the tool for scoring the gender impact of government initiatives, multilateral banks looking to invest in women, and donor agencies and impact investors hoping to measure the impact of their portfolios.
- **Data Analytics for Impact.** To bridge the gap in quality and quantity of data collection between social enterprises and their impacts, policymakers can use data analytics to harness big data in tracking the progress of programs, building transparency, and enabling decision-making for future funding allocation. Investors will be better able to allocate their capital using multilevel and sector risk-return-impact analytics. Government agencies can advocate for embedding impact analytics into program assessments. For instance, the National Economic and Development Authority, responsible for tracking and financing initiatives aligned with the SDGs, could benefit significantly from data analytics.

Social enterprises have enormous potential to bring financially sustainable, market-based approaches to help achieve national goals and the SDGs. The government's support for strategic, timely, and market-based opportunities can enable social enterprises to extend their impact to the most vulnerable populations and help address pressing social and environmental challenges. It is critical that the government acts now to ensure sustainable development in the Philippines.

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Note: This policy brief is based on the Technical Assistance Consultant's Report prepared by the Impact Investment Exchange (IIX) Foundation for TA 8977-REG: Knowledge Development Support for Southeast Asia - Roadmap for Strengthening Social Entrepreneurship in the Philippines Subproject.

### FURTHER READING

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Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 4444  
Fax +63 2 636 2444

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