



# PERSPECTIVES ON THE POLICY ENVIRONMENT AFFECTING SOCIAL ENTERPRISES IN THE PHILIPPINES<sup>1</sup>

## Introduction

Like other developing countries in Asia, the Philippines manifests the phenomenon of worsening poverty and inequality amidst economic growth. Data from the National Statistics Office and the National Statistical Coordination Board show that from a baseline of 45.3% (28.1 million people) in 1991, poverty incidence in the country, measured in terms of income poverty, stopped declining at 30% in 2003 and from that point on proceeded to rise steadily up to 32.9% (27.6 million people) in 2006. Considering the impacts of the global crisis in 2008-2009 and the natural disasters of 2009, the poverty situation could only have gotten worse. When the Philippines registered worsening poverty in 2006, Forbes magazine listed 3 Filipinos in its annual list of billionaires with their net worth ranging from US\$2.3-2.6 billion each. The 2008 National Nutrition Survey revealed that 3 out of 10 children were undernourished, with the percentage of underweight children less than 5 years of age comparable to UNICEF's 2006 estimates for Sub-Saharan Africa. Social enterprises in the Philippines may be characterized as responses to this condition of poverty and inequality amidst the failure of state and market institutions to serve the needs of the poor (Dacanay, 2012).

There have been no systematic studies and surveys in the Philippines to establish a comprehensive profile of social enterprises. A rapid appraisal using secondary data and interviews with key informants from national networks of social enterprises, social entrepreneurship resource institutions and regulatory government agencies was conducted in 2007. The rapid appraisal defined social enterprises as social mission-driven wealth creating organizations that serve the poor or marginalized as primary stakeholders and have a distributive enterprise philosophy (Dacanay, 2007). The rapid appraisal came up with an informed estimate of 30,000 with the following segments:

- Cooperatives;
- Microfinance institutions;
- Fair trade organizations;
- NGO-initiated earned income enterprises;
- Sector or area-based enterprises serving specific poverty groups; and
- Small entrepreneur-initiated enterprises with a clear social agenda.

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The biggest segment are cooperatives registered with the Cooperative Development Authority. Most cooperatives that involve the poor as majority members are savings and credit cooperatives that have gotten engaged in microfinance operations; agricultural or farmers' cooperatives, including cooperatives of agrarian reform beneficiaries or small holders who acquired lands under the government's land to the tiller program; and cooperatives providing various forms of social protection schemes such as micro health insurance.

Outside of cooperatives, there is a growing number of microfinance institutions that provide the entrepreneurial or enterprising poor with financial services. The rest are shared by fair trade organizations, NGO-initiated and entrepreneur initiated as well as sector or area-based enterprises serving groups of farmers, fishers, indigenous communities, persons with disability and other poverty groups. Outside of cooperatives, social enterprises usually register under the Securities and Exchange Commission as non-stock, non-profit corporations and/or as stock for profit corporations.

### **Policies Affecting Social Enterprises**

Philippine laws come primarily from legislation enacted by Congress, composed of a House of Representatives (elected per congressional district) and the Senate (elected at large). For this reason the Philippines is considered a civil law jurisdiction, as opposed to a common law jurisdiction which is primarily based on court decisions developed by judges through the years. However, the Philippines has also embraced the common law practice of courts adhering to past decisions and being guided by them in deciding similar cases. (Bautista, 2012)

Congress passes laws as the legislative branch of government. The executive branch, composed of the Office of the President and its departments, is responsible for implementation. The judicial branch, composed of the courts, interprets these laws. After a law is enacted by Congress, there is usually one or a set of corresponding Implementing Rules and Regulations (IRR) defining the guidelines for the law's implementation led and/or anchored by a specified government structure, department or office. Sometimes, a defective law or the lack of an IRR becomes a bottleneck. Even with an acceptable law and IRR, a policy-action gap can exist because of the lack or absence of appropriate structures and systems. More often, policy-action gaps exist due to the non-allocation or inadequacy of resources reflective of the lack of political will or non-prioritization by the leadership of the government as a whole, or of the lead government agency concerned with the law's implementation. In this context, it is when a strong coalition of stakeholders who are proactive during the whole process of crafting and enacting the law, as well as vigilant in following up government action that a law is effectively implemented and brings about desired results or outcomes.

### ***The Corporation Code of the Philippines (Batas Pambansa Blg. 68):***

The Corporation Code of the Philippines defines the juridical structure of a corporation as well as the legal design governing the organizational structure, incorporation requirements, stocks and stockholdings, and other organizational processes. The Code defines two types of corporations: stock corporations and non-stock corporations. Stock corporations are owned by shareholders to whom profits are distributed. Non-stock corporations are set up for social, civic and other purposes: any income from its operations cannot be distributed to members as dividends but may be used for the furtherance of its objectives. Both types of corporations are required to register and to submit annual reports with the Securities and Exchange Commission, the primary implementer of this Code. The Corporation Code of the Philippines was approved May 1, 1980 (The Corporation Code of the Philippines).

Given the hybrid nature and resource mix mobilized by social enterprises, they often find themselves unable to adequately operate exclusively as stock, for profit corporations or as a non-stock, nonprofit corporations. For this reason, a number of the more mature social enterprises have become multi-organizational systems where they have a stock, for profit corporation handling their market-oriented or transactional activities while they have a non-stock, non-profit corporation or foundation handling their transformational services directed at the capacity development of the poor and advocacy activities to effect changes in the broader context within which the social enterprise operates.

### ***The Philippine Cooperative Code of 1990 and 2008 (Republic Act No. 9520):***

The Philippine Cooperative Code seeks to provide an enabling environment for the formation, growth and development of cooperatives in the country as vehicles for promoting self reliance and harnessing people power towards economic development and social justice. All branches of the government are mandated to provide support to cooperatives through the “provision of technical guidance, financial assistance and other services.” The regulation and registration of cooperatives fall under the responsibility of the Cooperative Development Authority. The code provides specifications and prescriptions on the conduct of cooperatives especially in organizational processes such as democratic decision making, distribution of capital, membership and capacity building of members and community development. The primary mandate of the cooperative is to ensure the improvement of their members quality of life thus they need to provide “goods and services to its members to enable them to attain increased income, savings, investments, productivity, and purchasing power, and promote among themselves equitable distribution of net surplus through maximum utilization of economies of scale, cost-sharing and risk sharing.” The Code grants total tax exemptions to cooperatives with “accumulated reserves and undivided net savings of not more than 10 million pesos.” It also gives other privileges and incentives such as the procurement by government of agricultural products produced by their members, among others. The Philippine Cooperative Code was first enacted in 1990 then amended in 2008. Among the key amendments were the definition of 20 different types of cooperatives and standards for each type, and lowering the minimum number of members to 15. Other key amendments were provisions for cooperatives

to conduct and submit a Social Audit, a yearly assessment of the organization's impact on its members and the community, and a Performance Audit, an assessment of the "efficiency and effectiveness of the cooperative as a whole."

While the Cooperative Code in 1990 encouraged multi-purpose cooperatives as mechanisms for providing various services to the poor, the 2008 Code encouraged specialization to effectively and efficiently deliver a specific type of service. The implementing rules for the social and performance audits of cooperatives continue to be the subject of deliberation by the CDA and the cooperative sector. Members of the Technical Working Group note the need for capacity building among cooperatives and the required social and performance auditors at least over a three year period, before the provision could be implemented (Castillo, 2012). The charter governing the Cooperative Development Authority is also an issue being deliberated. Since 2008, the CDA has been put under the Department of Finance, a move that may be criticized for favoring cooperatives providing financial services at the expense of other types such as producers', agrarian reform, fishers, health service and education cooperatives, and giving more weight to its regulatory rather than its developmental functions.

By March 2011, the Cooperative Development Authority reported that there were about 18,000 registered cooperatives nationwide. While this is estimated by CDA as six times the number of cooperatives before the Cooperative Code was first enacted in 1990, this is much less than the number registered in December 2004, put at 68,922. This indicates that a big number of cooperatives that were started over the past two decades either failed or were unable to sustain meeting the basic standards for registration.

While a big number of registered cooperatives are not part of cooperative federations or unions, these secondary and apex structures play an important role in serving their members, developing the cooperative sector and engaging government on policies governing the sector. Among these groupings, the National Confederation of Cooperatives is the most prominent in networking and partnership building with government and other players. They hold a seat in the House of Representatives of the Philippine Congress having won one through the party list system. NATCCO was organized in 1997 by 5 cooperative federations, among them VICTO, which has since become an independent federation (VICTO National). Since 2005, NATCCO became a 2-tier apex focusing on financial intermediation having an asset base of P524 million with 164 members. They also set up the NATCCO Enterprise Development Center Inc which pursues the setting up of a NATCCO brand in partnership with its member cooperatives engaged in such industries as the funeral, housing and retail industries. Other secondary cooperative structures are the Cooperative Bank Federation of the Philippines (BANKOOP); the Cooperative Insurance System of the Philippines; the Cooperative Life Mutual Benefit Services Association; Philippine Rural Electric Cooperatives Association (PHILRECA); Philippine Cooperative Services, Inc. (PCSI); the Philippine Cooperative Center (PCC), the Cooperative Union of the Philippines (CUP), the Philippine Federation of Credit Cooperatives, Inc. (PFCCO), and the National Market Vendors Confederation of Cooperatives (NAMVESCCO)

From the perspective of social entrepreneurship and the agenda of poverty reduction, the cooperative sector in the country could potentially play an important role. While a big number of cooperatives count the poor among their membership, most have treated the poor mainly as nominal owners, clients and transactional partners. A big challenge facing the cooperative sector is how they could more effectively engage the poor in cooperative governance. As cooperatives are challenged to go beyond serving their members in a transactional way and to make a greater impact on their immediate communities and society as a whole, they will need to evolve into multi-stakeholder organizations where the poor are effectively engaged in their governance structures. This entails building the capability of cooperatives to provide transformational services or capacitating the poor to become organized actors in their own poverty reduction as well as providing structures for self-governance so they could have an effective voice and vote. In this respect, the regulatory requirement for cooperatives to undertake performance and social audits would become more meaningful and relevant if government, cooperative federations and unions and other support institutions of cooperatives could take on a developmental role of assisting this process of transformation among cooperatives. Some actors in the cooperative sector are active in this process of transforming cooperatives into social enterprises, among them the Institute for Philippine Cooperatives and Social Enterprise Development.

#### ***Agrarian Reform Law of 1988 (Republic Act No. 6657):***

The primary objective of the Agrarian Reform Law of 1988 was to transfer the ownership of land to landless farmers and farm workers and assist them with support services to make these lands productive. A fundamental cause of rural poverty in the Philippines is the distribution of land (World Bank, 1988; Balisacan and Pernia, 2002). Consistent with the law, the Comprehensive Agrarian Reform Program assists in land tenure improvement, irrigation, post harvest and other infrastructure development, credit provision and financial assistance, market development and organizing and capacity building of agrarian reform beneficiary associations and cooperatives. The Presidential Agrarian Reform Council is the multiagency mechanism tasked to implement agrarian reform, supported by the Provincial Agrarian Reform Coordinating Committees and the Barangay Agrarian Reform Committees at the local level. The Department of Agrarian Reform is the lead agency for CARP implementation and has primary jurisdiction over the adjudication of issues pertaining to agrarian reform. This law was approved on June 10, 1988 (Comprehensive Agrarian Reform Law of 1988).

Agrarian reform, the main asset reform program of government, remains a major bottleneck with a huge 1.4 million hectares left as lands that still needed to be distributed by the end of the government's Comprehensive Agrarian Reform Program (CARP) in 2008. Support services, including the organization of agrarian reform beneficiaries (ARBs) into cooperatives, have been focused on agrarian reform communities (ARCs) that did not cover the bulk of ARBs. Bello et al (2004) have assailed CARP as having failed to change the feudal landscape and to address the roots of land concentration in the hands of a few rural and urban elites. CARP has suffered from problems such as lack of funds, opposition from a landlord-dominated

Congress, lackluster performance by the Department of Agrarian Reform (DAR), intense resistance from landlords, and legal hurdles (Schelzig, 2005).

### *Magna Carta for Disabled Persons (Republic Act 7277)*

Legislation promoting the rights of persons with disability or PWDs was codified in Republic Act 7277, the Magna Carta for Disabled Persons, enacted in 1992. The Magna Carta supported the rehabilitation, development and provision of opportunities for PWDs and their integration into the mainstream of social and economic life in the country. However, implementation and enforcement remained weak. For example, of the 100,000 employable PWDs registered with the Department of Labor and Employment, less than 10% were in wage employment. This, despite the Magna Carta's provision that 5% of the contractual personnel of the national government engaged in social development should be reserved for qualified PWD, and the encouragement of the private sector and LGUs to hire PWD. Reasons for their low employment rate included (Schelzig, 2005):

- Poorly qualified PWDs as more than 90% were unable to complete basic schooling;
- Costly and prohibitive transportation provisions in public utility vehicles, especially for wheel chair users; and
- Inaccessible workplaces, which tended to be without ramps and appropriately designed toilets.

As a response, the National Federation of Cooperatives of Persons with Disability was set up in 1998 to spearhead the setting up of cooperatives as vehicles for employment and empowerment of PWDs. The federation started with an enterprise project of providing school chairs to the Department of Education.

In 1998, lobby efforts to incorporate a special provision in the General Appropriations Act for government to procure 10% of its school chair requirements from PWD cooperatives (or the GAA PWD procurement policy) finally bore fruit. The implementation of this provision by the Department of Education however has been inconsistent, and well meaning efforts by Department of Education officials to push it forward have been deterred by the Government Procurement Reform Act.

Further lobby efforts to regularize and to broaden the application of this special provision to cover other government departments were mounted in 2002. Government's response was Executive Order 417 which up to the time of the research suffered from having no Implementing Rules and Regulations.

The Medium Term Philippine Development Plan (2004-2010) called for expanded capacity building programs for PWDs, and set an ambitious target that by 2010, 10% of the national government workforce should be PWD. 2003-2012 had also been declared by the government as the Philippine Decade of Persons with Disabilities. But despite these commitments, progress remained slow. Education and job generation remained key areas for intervention (Schelzig, 2005). A National Council on Disability Affairs

(NCDA) is lodged under the Department of Social Welfare and Development to oversee the implementation of laws governing PWDs and the protection of their rights and welfare.

As the National Federation of Cooperatives of Persons with Disability pursues its strategy of establishing and strengthening cooperatives as vehicles for employment and empowerment, it has worked with PWD advocates and supporters to set up the Foundation for TheseAble as a platform for engaging other development actors and government to work for inclusive and equitable development where the rights and welfare of PWDs are secured.

### ***Social Reform and Poverty Alleviation Act of 1997 (Republic Act No. 8425):***

The Social Reform and Poverty Alleviation Act created and mandated the National Anti Poverty Commission (NAPC) to enhance the programs, approaches and strategies to strengthen the partnership between government and basic sectors towards poverty alleviation and sustained development. *The poor and the marginalized* basic sectors identified by RA 8425 include:

- Farmers and landless rural workers
- Artisanal fisher folk
- Urban poor
- Indigenous people and cultural communities
- Workers in formal labor and migrant workers
- Workers in the informal sector
- Women
- Children
- Youth and students
- Senior citizens
- Persons with disabilities
- Victims of disasters and calamities

NAPC has institutionalized the participation of these basic sectors in governance, actively pursuing opportunities for engagement with local government units, local and national agencies, and the rest of civil society. NAPC enables the basic sectors to intervene in the crafting of policy proposals and to formulate strategies for implementing specific projects on sectoral issues. The Commission also assists them in liaising with government agencies on legislative issues.

Cooperatives and non-government organizations are recognized as key partners assisting these basic sectors. The Act encourages the poor to engage in economic activities through engagement with cooperatives and microfinance institutions.

The act established The People's Development Trust Fund (PDTF) amounting to 4.5 million pesos delegated for mentoring and capacity-building of microfinance institutions and beneficiaries including "fund sourcing and assistance, establishment of credit and savings monitoring and evaluation mechanism, ... community organizing for

microfinance, livelihood and micro-enterprise training services,” feasibility studies of livelihood programs and microenterprise projects, and the promotion of microfinance technology. The PETF may be used for the implementation of related projects by registered microfinance institutions and local government units with a microfinance function for their constituents (Republic Act No. 8425: Social Reform and Poverty Alleviation Act, 2009).

A large section of the law specifies microfinance services the government is to facilitate for the poor. This includes the development of a supportive policy environment for better utilization of the poor of microfinance services, “rationalization of existing government programs for credit and guarantee,” provision of microfinance programs for the poor of existing government financial institutions and the promotion of structures necessary for widespread and democratized access to MFIs. The People’s Credit and Finance Corporation (PCFC) is responsible for the delivery of microfinance services to the poor. Through this act, government institutions are also mandated to allot a portion of their savings and credit for the same end. This act was approved on December 11, 1997 (Republic Act No. 8425: Social Reform and Poverty Alleviation Act, 2009).

Following its mandate to provide the poor access to credit and other microfinance services to uplift their economic status, PCFC wholesales short, medium & long term investment loans to accredited Microfinance Institutions (MFIs). These are Rural or Cooperative Banks, Thrift Banks, Non- Government Organizations (NGOs) and Cooperatives that implement credit assistance programs using any proven microfinance lending methodology to finance livelihood projects that can augment the income of targeted poor clients. As of December 31, 2011, PCFC has reached over 3 million microfinance clients through 142 partner MFIs operating in all 82 provinces, 129 of 131 cities and 1,235 of 1,497 (82%) municipalities.

A network of MFIs called the Microfinance Council of the Philippines Inc have started to define benchmarks for assessing performance and are actively engaged in evolving and promoting Social Performance Management Systems. But on the main MFIs are mainly concerned with expanding the reach of their financial services among the poor. Of late, MFIs have realized that poverty in the country is still mainly a rural phenomenon. They have started to problematize on how their services could more effectively reach the rural poor or the poor engaged in agriculture, fishery and forestry.

***Magna Carta for Micro, Small and Medium Enterprises (MSME) or Republic Act No. 6977 (1991) as amended by RA 8289 (1997) and RA 9501(2008) :***

The Magna Carta for MSMEs aims to promote the development of micro, small to medium enterprises through the Micro, Small and Medium Enterprise Development (MSMED) Council. MSMED aims to facilitate national coordination and monitoring of relevant agencies concerned with MSMEs. Aside from serving as a coordinating council, MSMED also serves as adviser to the executive and the legislative branch on policies and issues on the growth of MSMEs and implementer of guidelines, rules and restrictions specified in this act. MSMED serves to localize national programs that would help promulgate MSMEs examples of which are business training courses, technical

skills building, assistance in product development, commercialization and improvement of production techniques and marketing and distribution of products among other services. The Council also aims to provide “concessional interest rates and lower financing fees” to MSMEs by effectively coordinating with agencies concerned and facilitate the MSMEs procurement of tax credits and tax incentives. The Magna Carta also mandates the formation of MSME centers which provide information and support to MSMEs nationwide. The Bureau of Small and Medium Business Development (BSMBD) was created to act as Council Secretariat. MSMEED is under the jurisdiction of the Department of Trade and Industry. This act took effect on June 17, 2008 (Republic Act No. 9501: Magna Carta for Micro, Small, and Medium Enterprises, 2008).

Despite the Magna Carta’s intent , and the corresponding programs of government for MSME development, the industry structure of the country has remained unchanged for the past two decades. The Department of Trade and Industry’s own assessment points this out:

“The Philippine MSME sector is seen as a critical driver for the country’s economic growth. The sector serves not only as supplier and subcontractor to large enterprises and exporters but also as part of the support system for logistics services. The MSME sector accounted for 99.6% of total establishments in the country, and contributed 61.2% of the country’s total employment and 35.7% of total value added. However, the growth of the MSME sector has not been vigorous enough to propel the economy. Firm size distribution has not changed much in the past two decades as the proportion of medium sized enterprises has remained small. As a result, the country’s industry structure is often characterized by a missing or hollowed middle. The share of medium enterprises remained miniscule at 0.4% while that of small enterprises was almost unchanged at 7.7%. In terms of employment and value added contribution, MSMEs registered modest shares of 31.2% and 30.8%, respectively. Micro enterprises meanwhile formed the bulk of enterprises with a share of 91.6%. They accounted for a share of 4.9% of total value added and 30% of total employment. The performance of MSMEs has remained constrained by various factors that prevent them from realizing their potentials and surviving and growing in a highly competitive environment. These include high cost of doing business, lack of access to finance and market information, and low productivity and competitiveness. While the poor business conditions have affected the performance and competitiveness of all enterprises, the impact is perceived to be more difficult for MSMEs given their relatively small size and limited resources. Many MSMEs are unable to qualify for bank loans because they lack the necessary track record and collateral. The lack of credit information also deters banks from lending to MSMEs as it is more difficult to determine their creditworthiness. With their limited management and financial capabilities, many MSMEs have remained domestic oriented rather than take the risks of focusing on export markets. Another key concern is the low productivity of MSMEs due to lack of access to new technology, weak technological capabilities, and failure to engage in innovation and research and development activities.” (Micro Small and Medium Enterprise Development Plan, 2011-2016)

### ***Barangay Micro Business Enterprise Law of 2002 (Republic Act No. 9178)***

The Barangay Micro Business Enterprise Law aims to facilitate the country's economic development by providing support for barangay micro business enterprises (BMBE). It aims to do so through the "rationalization of bureaucratic restrictions" and incentives. The law targets enterprises whose total assets do not exceed Php 3 million. It also aims for the mainstreaming of businesses within the informal sector. Registered BMBEs are exempted from payment of income tax for income from the operations of the enterprise and are also exempt from enforcing the Minimum Wage Law. Through this law, credit windows shall be made available to service financial needs of BMBEs through different government finance institutions such as the Land Bank of the Philippines, the Development Bank of the Philippines, the Small Business Guarantee and Finance Corporation and the People's Credit and Finance Corporation. The law encourages government agencies to support and facilitate the growth of BMBEs. This Act was approved on November 13, 2002 (Republic Act No. 9178, 2010).

Enforcement of this Act has been problematic and has been called a failure by Rep. Teddy Casino, the Chairperson of the House Committee on Small Business and Entrepreneurship Development. The Committee has been undertaking public hearings for an amendatory bill for the BMBE Act. During the February 15, 2012 public hearing in Davao City, Casino pointed out that the law has failed to live up to its goals of providing incentives to micro entrepreneurs. He said that in Davao City alone, only 44 entrepreneurs have registered under the program out of the **thousands** of small business owners in the city. Of this, he added, only seven have been granted income tax exemptions in 2011. The many complaints about the implementation of the BMBE Law include the PhP1,000 payment for the certificate of registration; not getting income tax exemptions from the national government because of the strict policies of the Bureau of Internal Revenue; and not enjoying benefits at the local level because they are still required to pay local taxes and fees. They do not have better access to credit either as the Bangko Sentral ng Pilipinas reported that no special facilities were created for them under the law's implementing program. Casino lamented that most local government units are apprehensive about unconditionally granting local tax exemptions given the possible reduction in their income. Casiño said that a consensus they have gotten with LGUs consulted during the public hearings is for the local tax exemptions to be allowed only for small business with capitalization of less than P200 thousand over a maximum period of six years.

### ***Agri-Agra Reform Credit Act of 2009 (Republic Act No. 10000)***

The Agri-Agra Reform Credit Act of 2009 specifically targets agrarian reform beneficiaries by increasing their access to financial services and programs to improve "market efficiency and promote modernization in the rural agricultural sector." The act provides agriculture reform credit in the form of loans for the acquisition of agricultural tools, farm implements and other assets that would increase and improve the production of the farmers. The Act mandates all banking institutions in the Philippines to allot at least 25% of their loanable funds as credit for members of the agriculture or fisheries sector, 10% of which must be allotted to agrarian reform beneficiaries. The Bangko Sentral ng Pilipinas, the Department of Agriculture, and the Department of

Agrarian Reform shall be the agencies in charge of monitoring the compliance of the banks. The Act was approved on February 23, 2010 (The Agri-Agra Reform Credit Act of 2009, 2010).

The Agri-Agra law and other government policies requiring the mandatory allocation of financial resources have not been effective in promoting private investments in rural areas. Given the perceived risks in lending to this sector, and with no system of guarantees, some banks have resorted to either investing in government securities as an alternative compliance mechanism or simply paying the penalties for non-compliance. (Micu, 2010). This has prompted the Bangko Sentral ng Pilipinas to issue new guidelines last September 2011 and tighten its monitoring system for compliance. The BSP still has to provide a report about the state of compliance by banks using the new guidelines.(Agcaoili, 2012)

### **Perspectives on the Policy Environment Affecting Social Enterprises**

The current policy environment in the Philippines may be characterized as unresponsive to the nature of social enterprises as entrepreneurial organizations engaged in the creation of social and economic value that are contributing to poverty reduction and sustainable development. Notwithstanding the current debate on social audits for cooperatives and social performance management systems for microfinance institutions, the laws and government programs assisting cooperatives and microfinance institutions are largely about making them effective delivery systems for financial and other services for the poor. The tendency is to encourage treating the poor as clients or recipients of services. In this context, government programs do not appreciate the potentials and requirements of cooperatives and MFIs to become part of an ecosystem of institutions to assist the poor overcome capability deprivation, and become partners in their own poverty reduction. There seems to be a huge gap between the National Anti Poverty Commission's recognition of poverty as a multidimensional problem with the basic sectors playing a key role in policy making while resources made available for cooperative and microfinance programs mainly engage the basic sectors as transactional partners and clients.

The laws governing micro and small enterprises are oriented at developing them to become dynamic actors in growing the economy. They assume that as MSMEs grow, the benefits of such growth will trickle down to the poor in the form of employment as workers and suppliers. Even for such intended purposes, a huge policy-action gap exists in effectively assisting micro enterprises to become small and medium enterprises. By government's own admission, the phenomenon of the missing middle in terms of the country's industry structure has not changed during the past 2 decades. It goes without saying that such has not been conducive to assisting social enterprises grow.

On February 16, 2012, social entrepreneurs and leaders of major national networks and resource institutions of social enterprises in the country came together to establish the Poverty Reduction through Social Entrepreneurship (PRESENT) Coalition. The coalition united on pushing for a legislative measure, called the Poverty Reduction through Social Entrepreneurship Act or the Magna Carta for Social Enterprises. The legislative measure is meant to recognize, support and incentivize social enterprises serving the poor as primary stakeholders as major partners in poverty reduction. The Coalition also united on working together to develop standards for self-regulation and on undertaking a national campaign to raise awareness and support for social enterprises as vehicles for poverty reduction.

Initiatives of social enterprises serving the poor as primary stakeholders have gone beyond single enterprise interventions, as these have been proven to have limited impact. A number of these interventions by social enterprises and their support institutions have been initiated at the level of value chains and economic subsectors<sup>2</sup>. Some of these economic subsectors where social enterprises are already playing significant roles are in coco coir, muscovado sugar, organic rice, essential oils, bamboo, educational toys, school chairs, coffee, and financial services, just to name a few. As these entail clustering of production areas for economies of scale, engaging a multitude of actors, a huge amount of resources and a convergence of initiatives, those in the PRESENT Coalition who have experienced pursuing this approach recognize that government is in a good position to lead economic subsector development. The PRESENT Bill conceives of these strategic economic subsectors where the poor are concentrated or could be players, as the unit for planning and pursuing poverty reduction interventions in partnership with social enterprises.

The PRESENT Coalition represents a significant development in the social enterprise sector in the country. Before the coalition, the social enterprise sector was often characterized as fragmented. For the first time, major social enterprise networks, resource institutions and key social enterprises came together to work towards creating a more favorable policy environment for social enterprises as partners of government in poverty reduction. Co-chaired by the Ateneo School of Government and the Foundation for a Sustainable Society Inc, the other members of the Steering Committee of the PRESENT Coalition includes the Philippine Social Enterprise Network; World Fair Trade Organization (WFTO)-Asia/Philippines; International Network of Alternative Financial Institutions-Philippines; Eagle's Wings Development Foundation; Bote Central/Philippine Coffee Alliance; Pilipinas Ecofiber Corporation; Hapinoy/Micro Ventures Inc; Foundation for TheseAble Inc; Philippine Rural Reconstruction Movement; and the Institute for Social Entrepreneurship in Asia. These different actors represent dynamic organizations and networks that have been evolving and supporting various social enterprise initiatives through the years. In the process, they are evolving benchmarks and best practices about how social enterprises can serve as vehicles for

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<sup>2</sup> Subsectors are economic subsystems composed of networks of actors and enterprises performing various functions in competing value chains. These actors transact or buy and sell from each other, compete or coordinate, as they produce/transform raw materials into finished goods or develop services and deliver them to various markets/end users. Subsectors may be identified by major raw material source, finished product or final service provided.

poverty reduction and sustainable development. These span a wide array of initiatives: cooperatives of the poor as social economy organizations; microfinance institutions providing financial and other services to the entrepreneurial poor; fair trade organizations and subsector interventions working to improve the position and benefits of marginal producers in value chains; community-based enterprises exhibiting economic, social and ecological bottom lines; and value chain interventions as building blocks of a solidarity economy.

Despite their increasingly prominent role, the consultation noted that government policies do not recognize the social and economic value social enterprises contribute in serving various poverty segments. Cognizant that social enterprises have taken on different legal forms, sometimes in combination – from non-stock non-profit corporations, stock for profit corporations and cooperatives-- the proposed legislative measure envisions a process of qualification for social enterprises serving the poor as primary stakeholders. Those qualified shall then have the right or privilege to be given financial and program support, preferential rights in government procurement and tax exemptions or incentives. Important provisions proposed, which try to address the infirmities of current policies affecting social enterprises are: the setting up of Special Credit Windows for social enterprises that could provide non-collateralized loans supported by a Guarantee Fund Pool; a Social Enterprise Development Fund that would ensure resources for capacity development for social enterprises as entrepreneurial organizations providing both transactional and transformational services for the poor sectors they serve, as well as for local government units to build their capability to assist social enterprise development; and the establishment of an insurance system for social enterprises affected by natural calamities. Program support shall include Social Enterprise Research and Development (i.e. for strategic subsector development, for appropriate technology and for innovative strategies for the delivery of basic social services) as well as Social Enterprise Marketing Infrastructure Development, consistent with the principles of fair trade.

## **Concluding Remarks**

The proposed bill on Poverty Reduction through Social Entrepreneurship codifies an ecosystem conducive to the growth of a vibrant social enterprise sector in the Philippines, with government playing a developmental role. In a developing country like the Philippines where poverty and inequality is exacerbated by the failure of state and market institutions to serve the needs of the poor, a strong and proactive social enterprise movement is a crucial element in pushing for government to play such role. Different segments of the social enterprise movement have for the past years been evolving their own best practices and benchmarks for poverty reduction and sustainable development. With the setting up of the Poverty Reduction through Social Entrepreneurship Coalition, these various segments are now coming together to lobby for a responsive legislative measure. The Coalition needs to draw the broadest possible support and brace itself for the long haul not only to push for enacting an acceptable and implementable law. It also needs to work towards ensuring that systems, structures and resources are put in place to support, scale up and mainstream

innovative social enterprise models for poverty reduction and sustainable development. A government playing a developmental role in partnership with a proactive and innovative social enterprise sector may just produce the elusive outcome of empowering a significant percentage of the poor and substantively reducing poverty in the country.

## **Poverty Reduction Through Social Entrepreneurship (PRESENT) Bill**

### **Salient Features**

The proposed legislative measure mandates the planning and implementation of a National Poverty Reduction Through Social Entrepreneurship (PRESENT) Program to be pursued by a Commission on Social Enterprises under the Office of the President. The PRESENT Program is focused on the development of strategic economic subsectors with potentials for growth and where poverty groups are concentrated. The poor are expected to benefit the most from subsector development and growth through their effective participation as workers, suppliers, clients and/or owners of social enterprises and as partners in economic and social development. Substantive poverty reduction is envisioned as outcome.

The proposed law seeks to provide priority support and incentives to social enterprises with the poor as primary stakeholders in these strategic economic subsectors. Cognizant of the various legal forms that these organizations have taken – from cooperatives to non-stock, nonprofit corporations to stock for profit corporations, or a combination of these forms, the proposed Act provides for the qualification of these organizations as social enterprises to avail of support services and incentives from the state.

Support programs include:

- the provision of accessible non-collateralized loans to these social enterprises guaranteed by a pool of funds set up for such purpose;
- the setting up of a comprehensive insurance system to reduce the vulnerability of these social enterprises to climate change and natural calamities;
- the provision of resources for comprehensive capacity development for these social enterprises and their partners among the poor;
- a proactive social enterprise market development program promoting the principles of fair trade;
- a research and development program involving strategic economic subsectors, appropriate social enterprise technologies and innovations in democratizing access to quality basic social services.
- the mainstreaming of social entrepreneurship in the educational system at all levels to ensure strategic human resource development.

Incentives for social enterprises with the poor as primary stakeholders include:

- preferential treatment in government procurement including coverage of their performance bonds;
- tax exemptions and tax breaks; and
- cash incentives equivalent to at least 25% of the minimum wage for social enterprises employing persons with disability

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