FINANCING LANDSCAPE OF SOCIAL ENTERPRISES IN THE PHILIPPINES

isip
Innovation for Social Impact Partnership

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ABOUT ISIP

The Innovation for Social Impact Partnership (ISIP) is a three-year project that aims to support promising innovative Social Enterprises (SEs) in the Philippines to be able to collectively contribute to the acceleration, achievement, and sustainability of the UN Sustainable Development Goals (SDGs). ISIP is co-implemented by the United Nations Development Programme in the Philippines (UNDP) and Philippine Development (PhilDev) Foundation, with generous support from the Australian Embassy in the Philippines.

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About the Australian Government's Aid Program to the Philippines

The Australian Government's development cooperation program in the Philippines aims to accelerate inclusive economic growth and political stability. Australia's aid program will support these goals by focusing on the following objectives as outlined in the Aid Investment Plan: enhancing the foundations for inclusive economic growth; building stronger institutions for transparent and accountable governance; and improving the conditions for peace and stability.

About PhilDev Foundation

The Philippine Development Foundation (PhilDev) is an independent, non-profit organization that aims to eradicate poverty in the Philippines through its three (3) pillars: education, innovation, and entrepreneurship. PhilDev brings together government organizations, the academe, private industry, and the community in harnessing science and technology for sustainable and inclusive economic growth in the Philippines.

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UNDP is the leading United Nations organization fighting to end the injustice of poverty, inequality, and climate change. Working with our broad network of experts and partners in 170 countries, we help nations to build integrated, lasting solutions for people and planet.

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Innovation for Social Impact Partnership

LIST OF ACRONYMS

ADB	Asian Development Bank
BSP	Bangko Sentral ng Pilipinas
CARES	COVID-19 Assistance to Restart Enterprises
CGAP	Consultative Group to Assist the Poor
DFI	Development Finance Institutions
DOF	Department of Finance
DTI	Department of Trade and Industry
ECQ	enhanced community quarantine
FIST	Financial Institutions Strategic Transfer
FISTC	Financial Institutions Strategic Transfer Corporation
IPO	Initial Public Offering
ISIP	Innovation for Social Impact Partnership
IIX	Impact Investment Exchange
KOICA	Korean Overseas International Cooperation Agency
MFI	microfinance institutions
MSME	Micro, Small, and Medium Enterprises
PRESENT	Poverty Reduction through Social Entrepreneurship
raiSE	Singapore Center for SEs
SDG	Sustainable Development Goals
SE	social enterprise
SEC	Securities and Exchange Commission
UNESCAP	United Nations Economic and Social Commision in Asia and the Pacific
VFG	VentureForGood

INTRODUCTION

Given the massive scale of challenges that societies face, there is a growing number of actors beyond governments, that seek to help reduce some of the world's problems in their own way. Businesses, in particular, have increasingly acknowledged their role in meeting global development objectives. Significant rethinking and realignment of strategies have been made so that private sector initiatives contribute to the Sustainable Development Goals (SDGs). Initiatives that support business profitability while meeting social and/or environmental goals have also emerged.

Recent years have shown success associated with social and environmental impact. In Deloitte's Global Human Capital Trends 2019 report, the top answer among CEOs for the most important success measure was "impact on society, including income inequality, diversity, and the environment."[1] Investors also now look at a company's environmental, social, and governance (ESG) scores to evaluate corporate performance.

Among actors of interest, however, are social enterprises, which have integrated social good into their business models and mobilized profit generation to benefit a wider society. While small in establishment size, they are essential to attaining the Sustainable Development Goals (SDGs) faster.

Within the ISIP context, a social enterprise (SE) is "any business venture created for a social purpose – mitigating/reducing a social problem or a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business".[2] It is their emphasis on impact that sets social enterprises apart from more profit-oriented micro, small, and medium enterprises (MSMEs). It also positions them as role models for peers and promotes a high degree of collaboration at every level of the organization (Deloitte, 2019). With adequate support and resources, the Asian Development Bank (ADB) finds that SEs have great potential to address worsening poverty and inequality, and contribute to more inclusive growth.[3] Altogether, SEs contributed as much as 5% to the Philippine employment growth

1 Volini, Erica, Indranil Roy and Jeff Schwartz. (2019). *Leading the social enterprise—reinvent with a human focus.*

2 Alter, K. (2007). "Social Enterprise: A Typology of the Field Contextualized in Latin America". Inter-American Development Bank. Retrieved from https://www.globalcube.net/clients/philippson/content/medias/download/SE_typology.pdf/.

3 Asian Development Bank. (2018) *Roadmap for Strengthening Social Entrepreneurship in the Philippines.* Mandaluyong City. p.2

in 2016[4], through agriculture, education, business development, and financial enterprise ventures.[5]

As of 2017, there are 160,000 social enterprises in the Philippines[6] -- and most of them have limited size and scale. These are typically led by individuals in the ages of 35 to 43 years[7]. Most of these SEs are funded by themselves, or their families and friends. Other financial sources are available, such as microfinance lenders, foundations, social impact investors and financial institutions who are willing to provide loans to them. The latter include the ADB, LGT Venture Philanthropy, and Impact Investment Exchange.[8]

Social enterprises generally struggle to receive targeted support from the government and only indirectly benefit from programs and policies that are intended for MSMEs.[9] The biggest barrier, however, to social enterprise growth is limited access to capital, which is exacerbated by the lack of distinction from MSMEs, which effectively removes any competitive advantage of pursuing social goals.

As literature suggests and the roundtable confirms, social enterprises continue to struggle for growth and its barriers are driven by an underdeveloped financial market infrastructure for SEs. An ADB and Impact Investment Exchange (IIX) report in 2018[10] finds that the current landscape fails to attract substantial levels of impact finance and interest among lenders in spite of evidence for social impact and expanding availability investments. Previous analysis and discussions also indicate a lack of continuity in obtaining financing as SEs move into the different stages of the business. Other barriers include limited SE capacity to absorb capital; lack of skilled staff and outreach outside urban areas, and skills gap in business development and marketing. Furthermore, for most SEs, traditional loans remain inaccessible due to rigid collateral requirements.

In addition, challenges in accessing finance have been amplified under the COVID-19 pandemic, where economic activities are limited, consumers spend less, and banks are more risk averse. The ADB estimates that 70.6% Philippine MSMEs have been forced to close temporarily due to COVID-19.[11] Faced with cash flow problems, the majority of MSME owners surveyed said they used their

4 British Council, European Union, and UNESCAP. (n.d.). *Reaching the Farthest First: The State of Social Enterprise in the Philippines*. Manila. p. 12

5 Ibid. p. 13

6 British Council, European Union, and UNESCAP. (2017). *Reaching the Farthest First: The State of Social Enterprise in the Philippines*. Manila. p. 55.

7 British Council, European Union, and UNESCAP. (n.d.). *Reaching the Farthest First: The State of Social Enterprise in the Philippines*. Manila. p. 12

8 British Council (2015). *Report: Social Enterprise Vibrant in the Philippines*

9 Asian Development Bank. (2019). *Roadmap for Strengthening Social Entrepreneurship in the Philippines*. Mandaluyong City. p. 2.

10 Asian Development Bank. (2018). *Roadmap for Strengthening Social Entrepreneurship in the Philippines*. p. 14.

11 Asian Development Bank. (2020). *Navigating COVID-19 in Asia and the Pacific*. Mandaluyong City. p. 79.

personal money or resorted to borrowing money from family or friends just to keep their business afloat and sustain the jobs of their workers.

Similarly, the Consultative Group to Assist the Poor's (CGAP) Global Pulse Survey of Microfinance Institutions[12] finds that 69% of microfinance institutions (MFIs) have reduced lending as of July 2020 due to the pandemic. Ten percent of respondents have completely stopped lending. This may be representative of the overall state of financial institutions in the Philippines and the access to credit of MSMEs, including social enterprises.

OBJECTIVES

A series of roundtable discussions were conducted in 2019 to explore and better understand the financing landscape of the Philippine Social Enterprise (SE) ecosystem. Initiated by the Innovation for Social Impact Partnership (ISIP) project, the discussions sought to validate assumptions about social enterprise financing and inform on-going and future ISIP approaches that aimed to bridge the financing gap of Filipino social enterprises.

The fifth roundtable was held on November 4, 2019 at the Makati Diamond Residences in Makati City, Philippines. Discussion participants included key officers of universal, commercial, thrift, and rural banks, as well as representatives of local and international development finance institutions (DFIs).

The discussion focused on fulfilling the following objectives:

- Understand creditor trends in social enterprise financing;
- Outline loan criteria of creditors for MSMEs, including SEs;
- Identify creditors with favorable loan products for impact-driven businesses; and
- Gather insights to improve SE attractiveness to creditors.

In addition, the writers' desk research on the subject matter provided an analysis of the landscape of access to finance for social enterprises in the Philippines, a benchmark of best practices in other countries and specific recommendations to mobilize financing to social enterprises in the Philippines.

12 Zetterli, Peter. (2020). *Four Ways Microfinance Institutions are Responding to COVID-19*. Retrieved from https://www.cgap.org/blog/four-ways-microfinance-institutions-are-responding-covid-19

LANDSCAPE OF ACCESS TO FINANCE FOR SOCIAL ENTERPRISES

Access to Finance in the Philippines

Access to finance, in general, has been a challenge in the Philippines even before the COVID-19 pandemic.[13] Despite the liquidity and stability of the Philippine banking system, lending to MSMEs has been historically low. In 2019, only Php 228 billion have been extended to micro- and small firms, which represents 2.8 percent of banks' total loan portfolio. This is a far cry from the 8 percent mandatory allocation under the Magna Carta for MSMEs, which should have amounted to Php 651 billion in the same year.[14] Notably, the compliance rate of banks to the required loan allocation has consistently declined through the years – from a high of 8.5 percent of their total loan portfolio in 2010, down to only 2.8 percent in 2019.

Banks face difficulties in complying with the mandatory loan allotment due to the lack of "investable enterprises".[15] Hence, some banks would rather pay penalties rather than extend loans to MSMEs.[16] Data showed that the BSP had remitted Php 196 million to the Bureau of Treasury from 2011 to 2016 from penalties for non-compliance to the Magna Carta for MSMEs alone.[17]

Even alternative financing channels for MSMEs in the Philippines, such as equity financing though IPO listing and venture capital, remain untapped and underdeveloped. The poor appetite of venture capitalists in the country is largely due to higher transaction costs.[18] Low participation rates in IPO listing can be attributed to stringent requirements such as the authorized capital stock and the need for a positive operating income for at least two of the last three fiscal years, among others.[19]

13 Teves, Margarito and Griselda Santos. (2020). "MSME Financing in the Philippines: Status, Challenges, and Opportunities." Nomura Journal of Asian Capital Markets, 5 (1). Accessed at https://www.nomurafoundation.or.jp/en/wordpress/wp-content/uploads/2020/09/NJACM5-1AU20-04.pdf

14 Worth noting, however, is that while essential, said provision, expired in 2018 after 10 years of implementation.

15 Impact Investment Exchange Foundation. (2018). "Philippines: Knowledge Development Support for Southeast Asia – Roadmap for Strengthening Social in the Philippines." *ADB Technical Assistance Consultant's Report.* Page 51.

16 Ibid; Aldaba, Rafaelita. (2011). "SMEs Access to Finance: Philippines." In Harvie, C.,S. Oum, and D. Narjoko (eds.), *Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies.* ERIA Research Project Report 2010-14, Jakarta: ERIA, 291-350. Page 306.

17 Makati Business Club. (2018). "Supporting MSME Development through Financing." *MBC CongressWatch Report No. 193.*

18 Lagua, Benel. (2016). "Equity capital for small business." *The Manila Times.*

19 Aldaba (2011). Page 309.

Expectedly, the inaccessibility of funds results in huge financing gaps for MSMEs. In 2017, this has been estimated by the International Finance Corporation to amount to at least USD 221 billion, equivalent to 76 percent of the country's gross domestic product. It even recorded a higher gap compared to Southeast Asian neighbors, such as Indonesia (USD 65.9 billion), Thailand, (USD 40billion), and Vietnam (USD 23 billion).

Accessing Finance of Social Enterprises in the Philippines

Limitations of the Financial Market Infrastructure

Philippine social enterprises likewise face constraints when it comes to accessing finance in the country. In a 2017 survey of around 200 SEs, some 53 percent cited obtaining capital as one of the major barriers for SEs investment.[20] Forty-six percent said that they had difficulties securing grant funding and 32 percent said that cash flow is a major barrier to growth. The study also identified lack of access to capital as more common among startup and early-stage enterprises.

The main reasons for these difficulties are: limited supply of capital (51%), unrefined business model (34%), weak access to investors due to limited network (31%), and limited track and performance record (29%).

Based on the same study, cash and in-kind donations are the most common source of financing among social enterprises (43%). This is followed by grants from foundations (29%), grants from governments (20%), and equity or equity-like investment (17%). Notably, the least common source of funding among the social enterprises surveyed is commercial loans (12%), which the study attributed to high access costs like the need for collateral and a strong business plan.

Despite the increasing recognition of the value of SEs and the expanding availability of investments, the financial market infrastructure for SEs is not sufficiently developed in the Philippines to attract substantial levels of impact finance. There is also a gap in the provision of financing for taking SEs from the proof of concept stage to full-scale funding. This market failure occurs because of the lack of investment activity among existing private capital providers.

Investors have observed that SEs have insufficient technical and other capacity, such as on business and financial management, to demonstrate an adequate track record of performance and present compelling proposals for funding, particularly in consideration of SE business models and business sizes. On the other hand, availability of early-stage capital to grow the business is limited.

20 British Council, European Union, and UN Economic and Social Commission in Asia and the Pacific. (2017). *Reaching the farthest first: The state of social enterprises in the Philippines.*

Box 1. An emerging practice: Social Stock Exchange

Another way to channel funds to social enterprises is through the creation of the Social Stock Exchange (SSE). Practiced in several countries, an SSE operates like a regular stock exchange and serves as a platform for institutional investors to purchase bonds from listed social enterprises who share a similar mission or interest.[21] Its major distinction from regular stock exchanges lies in requirements for listed organizations to report their social and environmental impact aside from the traditional profit and loss report.

Large amounts of impact capital have been raised for different social enterprises and projects ranging from housing, healthcare, education, clean energy, and clean water through SSEs. Singapore's Impact Investment Exchange raises an average of US$ 40 million in impact capital per year. Meanwhile, the Social Venture Connexion in Canada and the Social Stock Exchange in UK have raised at least US$ 100 million and US$ 500 million in impact investments, respectively.[22] Other countries with SSEs include South Africa, and the UK ***(See Annex A)***.

Accessing Finance during COVID-19

Economic consequences of the COVID-19 pandemic to MSMEs

During the COVID-19 pandemic, social enterprises face an even greater challenge of getting a piece of the pie of lending from MSMEs. Their lack of access to finance is exacerbated as strict lockdowns and social distancing protocols have been implemented, thereby paralyzing the economy and the operations of most businesses. At the height of the lockdown in April, around 53 percent of MSMEs nationwide stopped operations, while another 13 percent operated only in limited capacity.[23] In a PwC Philippines survey, around 44 percent of MSMEs have been found to be in need of better working capital management, and 39 percent identified financing as a pressing need.[24]

A more detailed picture of the grim financial state of MSMEs can be seen in the ADB survey conducted between April to May 2020. The survey found that

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21 KPMG. (2020). "Analyzing the concept of Social Stock Exchange in India." Retrieved from https://assets.kpmg/content/dam/kpmg/in/pdf/2020/07/analysing-the-concept-of-social-stock-exchange-in-india.pdf

22 KPMG (2020).

23 Lopez, Ramon. (2020). "Trade and Industry Situationer & Plan." *Presentation.*

24 Galicia-Dorado, Janesse. (2020). *Towards resilience: A practical guide for MSMEs.*

around 41 percent of micro-enterprises had no cash and savings to support their operations at the time of the survey and 36 percent would reportedly run out of funds within 1-3 months. For small enterprises, about 26.7 percent had no cash and savings while 37.5 percent were expected to run out of cash within 1-3 months. Medium-sized firms also face the same problem with 21.8 percent reporting no cash and savings during the survey while 37.9 percent would run out of cash within 1-3 months.[25]

Moreover, in a September 2020 CEO survey of PwC Philippines and Management Association of the Philippines, about 20% of micro-sized firms indicated that they expected more than 50 percent of revenues and sales loss this year due to the pandemic.[26] Thirteen percent of small enterprises and 9% of medium enterprises projected the same amount of losses this year.

Government efforts to support recovery

The Philippine Congress enacted Republic Act 11494 or the Bayanihan to Recover as One Act (Bayanihan II) to support recovery efforts of affected MSMEs, including social enterprises. Provisions of the law include an additional PhP 165.5 billion to boost the government's COVID-19 intervention programs. The biggest share of the stimulus package – PhP 39.5 billion – has been earmarked as capital infusion to government financial institutions to support credit-guarantee programs and the provision of low-interest loans to affected sectors.

Of the amount, PhP 10 billion has been allotted to SB Corporation, the government's primary financing arm for MSMEs. The fund will be used to finance the SB Corp's COVID-19 Assistance to Restart Enterprises (CARES) program, which seeks to provide interest-free loans to micro and small-sized firms. Under the program, micro enterprises with asset size of not more than PhP 3 million can borrow between PhP 10,000 to PhP200,000; while small enterprises, with asset size of not more than PhP 10 million, can secure loans not exceeding PhP 500,000. As of July 16, the CARES program has approved 3,711 loan applications and has released P37.8 million to micro and small enterprises.[27]

Other government financial institutions have also received funding from Bayanihan II, such as the Land Bank of the Philippines (PhP 18.4 billion), Development Bank of the Philippines (PhP 6 billion), and Philippine Guarantee Corp. (PhP 5 billion). Each of these three institutions are offering programs to provide relief to MSMEs *(see Table 1)*.

25 Asian Development Bank. (2020). *The COVID-19 Impact on Philippine Business: Key Findings from the Enterprise Survey.* Mandaluyong City, Philippines: ADB.

26 PwC Philippines and Management Association of the Philippines. (2020). *A Whole New World – Reigniting the Stalled Global Economy: PwC MAP 2020 CEO Survey.*

27 Committee Affairs Department. (2020). *Committee Daily Bulletin*, 1(136).

TABLE 1. COVID-19 Assistance Programs of Government Financial Institutions

FINANCIAL INSTITUTION	COVID-19 PROGRAM
Land Bank of the Philippines	**Interim Rehabilitation Support to Cushion Unfavorably Affected Enterprises by COVID-19 (I-RESCUE) Lending Program.** It seeks to support MSMEs, cooperatives, and microfinance institutions affected by the pandemic. The program can provide loans of up to 85% of actual need to serve as working capital of small businesses, which can be paid for up to 5 years, with a maximum of 2-year grace period. The loan is subject to 5% interest for the first three years but can be repriced annually thereafter.
Development Bank of the Philippines	**Rehabilitation Support Program on Severe Events (RESPONSE).** It seeks to help businesses located in areas affected by calamities and/or force majeure events. This includes the COVID-19 pandemic. Businesses can secure up to 95% of the loan amount for working capital, payable of up to 5 years with 1-year grace period.
Philippine Guarantee Corporation	**Credit Guarantee Program for MSMEs.** MSMEs affected by the pandemic can secure loans from PhilGuarantee-accredited financial institutions of up to P50 million, with guarantee coverage of 50% of loan principal amount.

Source: LBP, DBP, and PhilGuarantee Corp.

Aside from the stimulus package, other provisions of the Bayanihan II aim to provide financial relief to cash strapped MSMEs and help them conserve capital during this pandemic. Financial institutions have been mandated to implement a 60-day grace period for all loan payments due on or before December 31, 2020, which can be extended subject to mutual agreement between the borrower and the financing institution. The law also provides for a 30-day grace period for the payment of utilities such as electricity, water, and telecommunications which falls during the period of enhanced community quarantine (ECQ) or modified (MECQ), as well as payment for commercial rents of MSMEs who were ordered to temporarily cease operations.

The BSP has also implemented relief measures to make loans accessible to MSMEs. For example, it has allowed banks to recognize MSME loans as part of their compliance with the reserve requirement ratios. This is estimated to free up as much as P360 billion for lending,[28] which will cover MSME loans from April 24, 2020 to December 30, 2021. As of July, banks – mostly rural banks -- have released P71 billion loans to MSMEs as compliance with the reserve requirement.[29] The BSP has also reduced the credit risk weight of MSME loans to 50% from the previous 75% for diversified MSME portfolio and 100% for non-diversified MSME portfolio. Lowering the credit risk weight enabled banks to extend more loans to MSMEs rather than setting those aside to comply with capital requirements.[30]

To allow the banking sector to extend more credit to MSMEs, the government is pushing for the passage of the Financial Institutions Strategic Transfer (FIST) Bill. This measure is expected to provide incentives to banks and other financial institutions to sell non-performing assets, including loans, to asset management corporations called Financial Institutions Strategic Transfer Corporation (FISTC). The FISTCs can be created not only by the private sector, but also by the BSP, government financial institutions, and government-owned and controlled corporations. Estimates from the Bankers Association of the Philippines show that this measure can free up PhP 700 billion in capital for the banking system, and as much as Php3 trillion of loans that can benefit businesses affected by the pandemic, particularly MSMEs.[31]

SE COUNTRY PERFORMANCE BENCHMARKS

Aside from the financing landscape, it would also be helpful to assess the enabling environment for SEs and the level of government support in the Philippines vis-à-vis their counterparts in other countries. This would help identify the areas which need more support to promote the growth of SEs.

Little data track the social enterprise sector. One major contribution to this gap is a global poll conducted by the Thomson Reuters Foundation together with Deutsche Bank's CSR Made for Good program in 2016. The initiative polled global experts on the best countries to be a social entrepreneur, and since then, has been conducted every three years.[32]

Table 2 shows standardized question sets to compare the performance of 44 countries in key areas, including: government support, attracting skilled

28 Agcaoili, Lawrence. (2020). "BSP Oks P360 billion loan package for MSMEs." *Philippine Star.*

29 Diokno, Benjamin. (2020). *Re-anchoring and Securing Economic Resilience.* Speech during the House Committee on Economic Affairs Hearing.

30 Agcaoili, Lawrence. (2020). "BSP lowers credit risk weight for MSME loan." *Philippine Star.*

31 Rawat, Aakash. (2020). *Philippine Banking Sector: How to think about the potential NPL transfer bill.* UBS Global Research.

32 Thomson Reuters Foundation. (2019). *The best countries to be a social entrepreneur 2019.*

TABLE 2. The Best Countries to be a Social Entrepreneur

Rank	Country	Gov't Support	Attracting Skilled Staff	Public Understanding	Making a Living	Gaining Momentum	Access to Investments
1	Canada	3	6	3	1	1	1
2	Australia	6	28	5	1	6	3
3	France	4	9	13	8	11	4
4	Belgium	5	31	10	5	4	2
5	Singapore	1	43	8	24	9	4
6	Denmark	17	1	5	35	17	26
7	Netherlands	15	22	23	8	11	7
8	Finland	12	2	13	1	32	19
9	Indonesia	19	33	18	15	2	9
10	Chile	18	17	2	33	11	6

Note: Countries were ranked between 1 and 44, 1 being the best.

staff, public understanding, making a living, gaining momentum, and access to investments (debt and equity).

The latest rankings show only two Asian countries in the top 10: Singapore and Indonesia. Singapore ranked first overall for government support and fourth for access to investments, while Indonesia ranked second overall in terms of gaining momentum and 9th for access to investments.

Singapore's high performance in rankings is owed to a robust SE ecosystem, which is composed of policy makers, network providers, capacity builders, fund providers, research institutes, professional and support services providers, and competition organizers. The existence of and collaboration among these various actors result in enabling regulatory and fiscal environments for social enterprises to emerge from ***(see Box 2)***.

Box 2. Putting the Pieces Together: The Rise of Singapore's SE Ecosystem

The Singaporean government's SE initiative takes roots from the Ministry of Social and Family Development's creation of a seed funding for social enterprises in 2003. The Social Enterprise Committee was then created in 2007 to make recommendations on developing the sector, followed by DBS Bank's launch in 2008 of its Social Enterprise Package, the first banking product that caters to social enterprises.

Afterwards, the Asia Centre for Social Entrepreneurship and Philanthropy, a research institution, and Impact Investment Exchange, a platform to facilitate impact investment in social enterprises, were created in 2009 and 2013, respectively. Finally in 2015, the Ministry – together with the Social Enterprise Association, National Council of Social Services, and Tote Board – created the Singapore Centre for Social Enterprises (raiSE), which provides trainings and resources, as well as funding support for social enterprises from start to mature stages. It also encouraged collaboration between its members and Singapore's social service agencies.

The Ministry-funded raiSE's VentureForGood (VFG) grant, which aimed to support social enterprises that are either starting or expanding their operations with up to SGD300,000 in grants. By the end of 2018, raiSE supported at least 120 social enterprises with a total SGD 11 million under VFG.

While outside the top 10 in general, Thailand ranks next to Singapore in the region for government support at 9th place, and outranks Malaysia (12th), Indonesia (19th), and the Philippines (24th). Their performance is evident in several efforts to set up institutional mechanisms and incentives to support social enterprises in the country. For instance, in 2010, the country established the Thai Social Enterprise Office,[33] which worked with two state-owned banks to set up social enterprise programs for local firms. It also passed a law that offered tax relief for corporations that helped set up social enterprises and tax incentives for social investments. In February 2019, Thailand passed a Social Enterprise Promotion Act[34], which offered tax relief and other incentives for registered social enterprises.

Table 3 shows rankings of the Philippines and four of its ASEAN neighbors. When assessed in terms of government support, attracting skilled staff, public understanding, making a living, gaining momentum, and access to investments, the table reflects major areas for improvement for the Philippines in at least three areas.

33 Doherty, Bob, Ada Chirapaisarnkul. (n.d.). *Social enterprise is set to take off in Thailand.*

34 Chandran, Rina. (2019). *Regulation can hinder not help Asia's social enterprises, analysts say.*

TABLE 3. The Best Countries to be a Social Entrepreneur (ASEAN)

Rank	Country	Gov't Support	Attracting Skilled Staff	Public Understanding	Making a Living	Gaining Momentum	Access to Investments
5	Singapore	1	43	8	24	9	4
9	Indonesia	19	33	18	15	2	9
22	Philippines	**24**	31	**26**	5	**32**	13
24	Thailand	9	30	18	15	23	14
30	Malaysia	12	41	26	27	28	35

Note: Countries were ranked between 1 and 44, 1 being the best; PH ranked lowest among ASEAN peers in the ranks indicated in red

While the Philippines does rank 3rd in the region and scores higher than the more-developed countries of Thailand and Malaysia, it lags significantly in bolstering government support and public understanding, placing 24th and 26th, respectively. Note that these are two areas where frontrunners Singapore received the highest scores, as well as Indonesia and Thailand.

Poll results also show that SEs in the Philippines could use considerable backing from the government to be more competitive with ASEAN peers. The country only ranked 26th for public understanding, underscoring the need to raise awareness about social enterprises in the country. Boosting public understanding of what social enterprises are and what they do could build greater public awareness that will, in turn, put pressure on the government and funding institutions to provide more meaningful support through policies and access to more resources.

Further, the country ranked lowest in access to non-financial support (such as legal and technical advice; access to markets and networks; coaching, mentoring, and training) and attracting skilled staff at 30th and 31st, respectively. These underscore the need for more capacity-building for organizations and individuals in the social enterprise scene.

A bill has been filed in the Philippines Senate towards this cause. It seeks to provide incentives and benefits to promote the overall growth of social enterprises and integrate them into the national government's overall poverty reduction strategy.

CHALLENGES TO ACCESSING BANK PRODUCTS

As mentioned previously in Section III. Landscape of Access to Finance for Social Enterprises, Financial institutions have different rules and regulations in providing loan products to SEs. This highlights the need to better understand banks, the considerations they make, and the various ways their financial products can be accessed by social enterprises. Insights from the Roundtable particularly reveal misalignments and gaps in the traditional products being offered, as well as the lack of readiness and suitability of SEs to what are currently available.

A. Credit assessments do not distinguish social enterprises from other MSMEs

In the Philippines, banking regulations have not been adapted to reflect distinctions between social enterprises and other forms of MSMEs (see. Section III). This proves to be critical in accessing financing as credit assessments inevitably fail to recognize the social impact-driven nature of social enterprises and how it fundamentally separates an SE's business approach from a profit-driven counterpart.

Among nine commercial and rural banks, as well as local and international creditors surveyed by the ISIP team, the most common criteria for accessing loans are: (1) a minimum business tenure of 3 years; (2) collateral, which may be waived for loans under P500,000, provided a good credit standing and history; (3) proof of profitability through positive cash flows; (4) applicants' credit history, and ; (5) good corporate governance structure. There are no specific criteria related to indicators of social impact, which rest at the heart of SEs.

The lack of specific standards to evaluate SE loan applications is a prevailing pain point as it can result in loan application rejections. Because SEs cover diverse sectors, creditors struggle to determine the most suitable loan product for a certain enterprise. Another basis for rejection is the SE founders' failure to meet investor criteria to access bank products. The limited number of guarantee mechanisms that cater to niche industries and markets can also omit innovative business models and products of social enterprises.

Nevertheless, banks can choose to waive some of their requirements, and exemptions can be made for social enterprises that demonstrate **strong financial footprints and corporate governance and management:**

- **Strong financial footprints.** This is important to help creditors determine SEs' compliance capability to pay off their loans or what rate and terms are suitable. A financial footprint represents the SE's financial history with banks and other financial institutions, their ability to pay on time, their cash movements, spending behavior, among others.
- **Corporate governance and management.** Creditors favor SEs with a strong corporate governance structure, which shows their ability to distribute rights and responsibilities among employees, boards, managers, and shareholders as this promotes a harmonious and productive working environment.

B. One-size-fits-all loan products exclude social enterprises without bankable footprint

Bank products answer to an existing mandate and have rigid rules and regulations on lending provision, which strictly conform to the '*Bangko Sentral ng Pilipinas*' (BSP) mandated criteria. Without changes in the mandated criteria, most banks would have limited room or flexibility to create or offer suitable loan products for SEs.

This means SEs contend with a standardized loans portfolio and abide by credit assessments with high financial capability thresholds. With most SEs relying on family and friends for initial funding, they evidently will not have the required credit footprint or historical credit record. This ultimately creates a chicken-and-egg situation where social enterprises need bank loans in order to scale up, while credit institutions require proof of scalability to provide credit products.

C. Lack of guarantee mechanisms for social enterprises in the Philippines

Guarantee mechanisms may potentially offer opportunities for social enterprises looking for Php 500,000 loans for capital or business scaling. It may also help SEs to strengthen their solvency, opening doors for creditors' loan approval with minimal to no collateral considerations. However, SEs are unable to access guarantee mechanisms from state-run institutions such as Small Business (SB) Corporation and PhilEXIM due to their mandated limitations; for example, DTI-endorsed SMEs and specific importing and exporting industries, respectively. President Rodrigo Duterte signed Executive Order No. 58 merging PhilEXIM and HomeGuaranty Corp.[35], which transferred all guarantee mechanisms of SB Corp. Agricultural Guarantee Fund Pool, and the Industrial Guarantee and Loan Fund to PhilEXIM, which was subsequently renamed Philippine Guarantee Corporation.

35 Signed on July 23, 2018

RECOMMENDATIONS

Discussions from the Roundtable clearly reveal limited appreciation and understanding of social enterprises among banking institutions, and how SEs differ from MSMEs. To most, SEs were indeed potential MSME borrowers. This exemplifies the lack of public understanding of social enterprises, as shown in the Thompson Reuter survey where the Philippines ranks 24th among 44 countries.

More importantly, the lack of understanding of what a social enterprise is, or what it seeks to achieve impedes efforts to motivate bankers to lend more to these firms or provide greater flexibility. Coupled with banks' inherent aversion to risk, even with a potential pool of capital, financial products can remain inaccessible to many SEs.

Ranking last among five Southeast Asian countries in terms of government support for social enterprises in the region reflects failures to translate ambitions into targeted policies and programs. For instance, the inclusion of SEs in the Philippine Development Plan 2017-2022 strategy on reducing inequality signals the government's recognition of SEs' potential to contribute in the attainment of development goals. But to date, this has not resulted in more SE-specific policies and programs in the country.

Enabling social enterprises to scale, expand their impact and help address development challenges in the Philippines will entail a combination of public and private sector support. Overall, there needs to be a private-public sector collaboration to develop a more enabling environment for SEs, with the Department of Trade and Industry as the lead, and partnerships with different stakeholders such as financial institutions, fintech organizations, social enterprises, and other government agencies. The Roundtable provides several insights and recommendations, which can contribute to such ambitions:

A. Policymakers have a key role in enhancing SEs' unique value proposition

There is a need to promote the visibility and unique value proposition of social enterprises among banks and financial institutions in particular, and among the public in general. This can help promote awareness and understanding of social enterprises, and result in more significant financial support.

The differences between SEs and MSMEs need to be highlighted. SEs are not *"government bodies that are owned and run by the state; are not charities which rely solely on donations; and are not private businesses which are merely* *profit-driven"*.[36] Social enterprises are "mission first" organizations, seeking to create societal value before revenues, profits, and commercial viability.[37] This does not mean, however, that all social enterprises do not value profit at all. There are social enterprises that generate profits and reinvest it, either partially or completely, for the purposes not only of funding their operations but also to improve their capability to realize their mission.[38]

Policymakers play a key role in raising awareness of social enterprises by deepening knowledge and setting in place policies and incentives to encourage social entrepreneurship. In Portugal, the government created the Portugal Innovacao Social (Portugal Social Innovation), an institution that seeks to promote and develop social innovation, particularly in accessing finance. The initiative helped social enterprises through conducting feasibility studies of social investment deals, facilitating discussion with investors and local government, and producing research on the applicability of social investment in the country.[39] In France, a law was passed to formally recognize the social and solidarity economy, which includes social enterprises. Aside from this legal recognition, the French Law on the Social and Solidarity Economy also expanded access to financing with the creation of the Social Innovation Fund, which can extend credit to social enterprises.[40]

B. Institutionalize support for social enterprises by passing the PRESENT Bill in Congress

There is a need to pursue legislation that will create a more enabling environment for SEs in the country. Currently pending at the committee level in the Senate are three bills entitled "Poverty Reduction through Social Entrepreneurship (PRESENT)" Program. At least five similar measures are also pending at the committee level in the House of Representatives.[41]

The bills recognize social enterprises as a key stakeholder in the government's poverty reduction agenda, and therefore, seek to create a viable environment to foster SEs' growth and development through the provision of incentives and other non-financial support.

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36 Hoyos, Angela and Diego Angel-Urdinola. (2017). "Assessing the role of international organizations in the development of the social enterprise sector." *Policy Research Working Paper 8006*. World Bank Group. Page 2.

37 Dalberg Global Development Advisors. (2017). "Are Social Enterprises the Inclusive Business of Tomorrow? – Development Banks' Perspective." *ADB Technical Assistance Consultant's Report.* Page 5.

38 Ibid.

39 OECD/EU. (2017). "Boosting Social Enterprise Development: Good Practice Compendium." OECD Publishing: Paris. Page 25.

40 Ibid. Page 25.

41 The three Senate bills are SB 1496, 820, and 105. Meanwhile, the five House bills are HB 2145, 2894, 3729, 7335, and 7457.

The measures specifically direct the Land Bank of the Philippines, Development Bank of the Philippines, Philippine Postal Bank, and Al Amanah Bank to set aside at least eight percent of their total loan portfolio and open a special credit window for social enterprises. All other private and public lending institutions will also be required to allot eight percent of their loan portfolio for social enterprises for a period of 10 years.

To complement the mandatory credit allocation, the bill endeavors to create a Social Enterprise Guarantee Fund that will be used to provide guarantee cover to financial institutions that will provide loans to social enterprises. The fund, which will be placed in trust with the Land Bank, will be sourced from the five percent of the budget surplus of several government-owned and controlled corporations and government financial institutions such as the Philippine Charity Sweepstakes Office and Philippine Gaming Corporation; and voluntary contributions, grants, and gifts from local and foreign sources.

Furthermore, the bill provides tax exemptions for social enterprises such as value-added tax, documentary stamp tax, capital gains tax, and for a period of five years, tariff and duties for the importation of all types of product inputs, equipment and machinery. Social enterprises with a net annual income of not more than P15 million will also be exempted from all national and local taxes.

The bills also propose to make SE lending eligible as compliance to the Agri-Agra Law, which is favorable as most SEs in the Philippines are in agriculture or agri-business. It calls for 10 percent of total procurement of goods and services supplied to the national government would come from SEs.

C. The Department of Trade and Industry to lead the development of a comprehensive module for social enterprises to enhance their bankability and to help them explore alternative financing options

It is critical to enhance SEs' financial attractiveness among banks, donors, and impact investors. Just like any small business, social enterprises can also suffer from limited business capacity and financial management capabilities, inconsistent financial statements, and audit. Furthermore, it is also helpful to increase the awareness of social enterprises to potential sources of capital aside from banks. This is important since some enterprises have limited knowledge of alternative financing options available to them. These issues could be addressed through information sessions and financial literacy training to develop SEs' attractiveness to investors. The Philippines can learn from the experience of other countries with respect to this area.

For instance, Denmark has business incubators such as the Copenhagen Project House that provided mentoring and peer-to-peer activities among social enterprises. The British government, meanwhile, implemented a three-year funding program called Big Potential that provided grants to SEs as well as one-to-one support sessions. The Portugal Social Innovation, as previously mentioned, provided grants and vouchers to help SEs access trainings on financial management and business modelling.[42]

Any enterprise, to be sustainable, should have a strategic mix of utilization of debt and equity. Banks from the Roundtable are not ready to appreciate social enterprises and shifting their mindset may take a while especially during the pandemic when they are more risk-averse. Social enterprises should look into the whole universe of potential sources of funding and establish a systematic way of organizing and accessing them.

D. Reaching out to impact investors and other donors and DFIs through the help of the Department of Trade and Industry

Impact investors are essential to SEs, not only to access finance but also to provide opportunities to scale up innovations.[43] Impact investing involves injecting large-scale private capital to *"address the world's most pressing social and environmental challenges."*[44] These issues include, among others, poverty, housing, access to clean water and sanitation, maternal health, and primary education.

The Philippines is recognized as the second-largest impact investing market in Southeast Asia between 2007 and 2017, receiving US$107.2 million from private impact investors and US$2.3 billion from development finance institutions.[45] Social enterprises, in particular, have been in the receiving end of impact capital. Based on the same study, several social enterprises in the country have secured impact capital ranging between $1 million to $5 million.[46] However, challenges still remain including SEs' weak capacity to absorb the preferred funding ticket sizes of global and regional impact investors, unfamiliarity with active impact investors in the country, and inability to meet high expectations of investors in terms of social and financial return.[47]

Aside from impact investors, international agencies like the Korean Overseas International Cooperation Agency (KOICA) and multilateral development banks like the ADB, World Bank, and International Finance Corporation supported

42 Ibid. Page 27.

43 Impact Investment Exchange Foundation. (2018). Page 4.

44 Asian Development Bank. (2011). *Impact Investors in Asia: Characteristics and Preferences for Investing in Social Enterprises in Asia and the Pacific*. Mandaluyong City, Philippines: ADB. Page 7.

45 Global Impact Investing Network and Intellicap. (2018). *The Landscape for Impact Investing in Southeast Asia*. Page 2.

46 Ibid. Page 12.

47 Ibid. Page 57.

SEs in the Philippines.[48] To further improve the access to impact investors and other donors, there is a need to have a systematic and organized way to match social enterprises with impact investors, development agencies, and financial institutions both locally and internationally.

E. The Department of Trade and Industry should spearhead the creation of an online portal for social enterprises

Despite the limitations of their institutions in granting loans, participants of the Roundtable expressed their interest in the creation of a Social Enterprise portal with a list of existing SE portfolios and their respective funding requirements. A portal may provide a brief overview of potential enterprises where credit and other finance institutions may engage with, and directly offer finance products to social enterprises. Aside from banks, impact investors should also be provided access in this portal.

The development of an online platform will benefit both social enterprises and investors. For SEs, the online platform can expose them to the availability of several financing options that can help them grow, including the requirements needed to receive funding. On the part of banks and impact investors, the online portal can provide them with the necessary information to assess the risks and capabilities of social enterprises.

One example of an online platform is Imfino RESOLVE, a global online platform that aims to connect impact investors with sustainable entrepreneurs. It was developed by Imfino, an international non-government organization based in Vienna, which promotes impact finance as a solution to social and environmental challenges.[49] Aside from funding, some online platforms like the Social Impact Market, created by the Social Impact Factory in Netherlands, connect private companies that are interested in buying social services or products from social enterprises.[50] The DTI can also benchmark from the experience of the Asia Pacific Economic Cooperation (APEC) MSME Marketplace which was developed to facilitate business matching for MSMEs, funders, innovation centers, and incubators across APEC member-economies.

48 Impact Investment Exchange Foundation. (2018). Page 48-49.

49 Imfino RESOLVE.

50 OECD/EU. (2017). “Boosting SE Development: Good Practice Compendium.” OECD Publishing: Paris. Page 26.

F. Explore viability of tapping into crowdfunding platforms in partnership with fintech entities and associations like the FintechAlliance.PH

Crowdfunding can also be a potential source for funding. The Securities and Exchange Commission identified four forms of crowdfunding. The first two crowdfunding models do not involve the motivation of financial return: donation-based where individuals pool resources usually to support a charitable cause or community initiatives; and reward-based where individuals pool resources in return for a reward, such as a product, from the company. The remaining two crowdfunding models, which are subject to SEC regulation, involve the prospect of financial returns: lending-based where individuals pool resources and lend money to a company; and equity-based where individuals invest in shares sold by a company and receive a share of profit.[51]

Some social enterprises in the Philippines have already benefited from crowdfunding platforms. For instance, locally based Bagosphere and Glovax Biotech were able to raise capital from IIX Impact Partners, which is one of the biggest crowdfunding platforms worldwide.[52] Bagosphere is an organization that provides workforce development training for unemployed youth in Bago City, Negros Occidental while Glovax Biotech is a company that seeks to increase awareness on vaccination and make it more affordable across the Philippines. There are several crowdfunding platforms operating in the Philippines (e.g. Gava and Spark Project), helping different causes such as agriculture, charity work, health care, and poverty reduction. Social enterprises need to be linked with the proper crowdfunding platform to secure financing.

G. Explore the creation of a Social Stock Exchange in partnership with the Philippine Stock Exchange

There is a need to study the viability of establishing a SSE in the country, perhaps through partnership with the Philippine Stock Exchange. The creation of SSEs offers benefits to both social enterprises and potential investors.[53] In general, an SSE increases the visibility of social enterprises to a wide pool of investors which can allow an SE to continuously source funding to support its mission. It also incentivizes organizations to improve their performance to generate social impact since it can improve their attractiveness to investors. On the part of investors, an SSE can help reduce risks and transaction costs

51 Securities and Exchange Commission. (2019). *SEC approves rules on Crowdfunding.* Pasay City.
52 Impact Investment Exchange Foundation. (2018). Page 52.
53 Ibid.

because it already provides the needed information to assess the viability of social enterprises.

In conceptualizing a potential SSE, it is important to identify which model or format will be adopted in the country. The Impact Investment Exchange in Singapore, for example, facilitates the trading of securities such as shares and bonds issued by social enterprises to a group of investors.[54] Other countries operate on a different model. The Social Stock Exchange (SSX) in UK only acts as a research platform which provides information on social enterprises and helps them connect with potential investors. It does not help in facilitating the trading of equity.[55]

Requirements for listing in the SSE should also be determined beforehand. For instance, social enterprises in the UK are required to undergo a social impact test before getting listed in the SSX. This determines whether an SE has the capacity to carry out its mandate and mission.[56]

H. Set the vision and mindset from the top – directly engage the BSP, Department of Finance (DOF), *and* Department of Trade and Industry (DTI)

There is a need to engage with the BSP and the DOF on policy recommendations for existing programs as well as the creation of new ones that will favor impact-driven businesses. ISIP may touch base with the BSP to engage with their initiatives on micro-banking products, *e-money*, micro-financing, and un-banked engagement initiatives to help create products customized for social enterprises in the Philippines. Close collaboration with the DOF to arrive at win-win policies that will empower SEs in the country.

There also needs to be a dialogue on how start-up social enterprises could tap more into the various MSME assistance channeled through DTI. In 2019, the Startup Innovation Act was signed into law and created the Philippine Startup Development Program to help foster a viable business environment for start-ups and start-up enablers in the country. Under the program, start-ups can receive several incentives like (1) subsidized cost of application and processing of permits and certificates for business registration; (2) subsidies for the use of facilities, office space, and equipment, and; (3) travel assistance to attend local or international start-up events. The law also mandated the creation of the Startup Philippines website which, among others, will contain an online database of startups in the country as well as the status of their application for different startup programs and incentives.

54 KPMG. (2020). *Analyzing the concept of Social Stock Exchange in India.*
55 Ibid.
56 Ibid.

I. The Department of Trade and Industry should develop a system to monitor the progress of social enterprises

A monitoring and evaluation system helps track the progress of social enterprises on several aspects, such as their impact to the community, bankability, and access to finance. This can provide researchers and policymakers with essential and grounded information on the SE landscape of the country and identify opportunities for policy interventions moving forward.

The assessment can be done similar to the BSP's way of monitoring financial inclusion indicators in the country. Moreover, the Philippines can partner with the academe, following France and its collaboration with a regional incubator called Alter'Incub and different universities to develop impact evaluation and measurement methods.[57]

57 OECD/EU. (2017). "Boosting SE Development: Good Practice Compendium." OECD Publishing: Paris. Page 29.

Annex A: Social Stock Exchanges Around the World

The table below provides brief descriptions of various social stock exchanges and the impact achieved by such platforms.

COUNTRY	SSE NAME	YEAR	DESCRIPTION	IMPACT
Canada	Social Venture Connexion	2013	Online platform which uses crowdfunding and private placement to raise capital by impact ventures and funds. It focuses on projects/enterprises in the field of clean technology, health, work and learning, food and social inclusion.	It has helped raised at least US$ 100 million of impact capital.
Singapore	Impact Investment Exchange	2013	Public platform based on a crowdfunding model which enables capital raising through the issuance of securities to a larger group of investors. It focuses on projects/ enterprises in the field of energy, agriculture, education, healthcare, and water.	It has helped mobilize around US$ 40 million of impact investment annually.
South Africa	South African Social Investment Exchange	2006	It works like a traditional stock exchange which allows investors to invest in exchange for a tax benefit. It focuses on projects/enterprises in the field of early childhood education, orphans and vulnerable children, food security, and enterprise development.	It helped raise around US$ 2 million in its first two years.
United Kingdom	Social Stock Exchange	2013	It does not facilitate trading of equity but serves as a directory and research platform which links impact investors with social enterprises. Some of its focus areas are affordable housing, clean energy, and healthcare.	It has helped raise US$ 500 million for different projects.

COUNTRY	SSE NAME	YEAR	DESCRIPTION	IMPACT
Brazil	Bolsa de Valores Sociais	2003	It functions as a match-making or crowdfunding platform rather than investment. It focuses on projects/enterprises in the field of youth and children particularly those that work on literacy, education, health, and environment.	N/A

Source: KPMG (2020); Chaturvedi et al (2019)

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