



POLICY BRIEF
ISSUE NUMBER 1
19 SEPTEMBER 2017

SOCIAL ENTERPRISES: SOLUTIONS FOR A SUSTAINABLE WORLD

Implementing
Partners



Associate
Partner



HIGHLIGHTS AND RECOMMENDATIONS

With the current socio-economic situation in the ARMM, social enterprises promises to be a viable intervention to create more wealth for lower-income families, and collectively, for the whole region. By engaging with the marginalised, social enterprises can potentially bring more opportunities outside the informal and shadow economy. Policymakers need to strengthen the social enterprise ecosystem to ensure the growth and sustainability of these businesses.

A legal framework that adapts to and provides for the unique needs of social enterprises is imperative for a solid foundation for the sector's growth. Studies have shown that the benefits of social enterprises increase when supported with public policy. In addition, studies have also shown that using public money to support social enterprises for job creation or the provision of goods and services is more efficient than using other methods.

POLICYMAKERS AND STAKEHOLDERS IN ARMM ARE ENCOURAGED TO:

- Formulate policies that allow simultaneous progress of social enterprises and traditional businesses towards the goals of social equity and economic efficiency

Traditional businesses and their capability to give financial support is an opportunity to propel the growth of the sector. While corporate social responsibility (CSR) is a way for companies to do their part for social development, social enterprises can serve as a more sustainable way for development, not only for the communities they support but also for their traditional business partners. In addition, partnerships between traditional businesses and social enterprises can lead to an exchange of knowledge that can improve business operations of social enterprises and make traditional business practices more socially inclusive and ethical.

Government support is needed for early-stage social enterprises, but will eventually dwindle down as they build scale and market capacity. However, some social enterprises work in sectors that cannot be expected to be self-financing, but nevertheless, reduce public costs or provide more public benefit. This opens the need for secure, long-term funds from non-governmental institutions, which can be provided by an array of financial products in the private market. Other countries have already begun to turn to impact investing, which aims to provide measurable social and environmental impact alongside economic returns.

Examples of countries that have already implemented policies to promote private sector social investments and partnerships with social enterprises include Thailand and South Korea. In 2017, Thai Cabinet Officials have approved the Social Enterprise Taxation Royal Decree, which includes provisions for social investor tax incentives. To promote social investments, the South Korean government has established Social Enterprise Investment Funds which aim to channel funds into social enterprises, while helping them build capacities to stand on their own. To widen the social investor pool, the South Korean government also provides tax incentives for investors. South Korea is also delving into social impact bonds (SIB), which pays investors financial returns for social improvements effected by a social enterprise based on a set of performance targets.

- Use public instruments (regular budgets, taxes and subsidies) to support the growth and development of social enterprises, like start-up grants and support funds in sectors where the poor are concentrated.

An enabling fiscal framework that caters to the needs of social enterprises may encourage more people to enter the sector, because fiscal incentives can contribute to the overcoming of some difficulties when working with disadvantaged people. Since social enterprises need to manage at least two bottom lines, financial assistance is important, especially for early-stage social enterprises that still need to build on scale. By issuing these incentives, government is recognising the positive social impact of social enterprises to the sectors and communities they work in.

Countries like Australia, the Belgium, Thailand, and Malaysia already have social enterprise tax incentives or start-up grants aimed to promote social entrepreneurship. The Australian government, for example, has invested AUD \$20 million in 2010 for a Social Enterprise Development and Investment fund. As another component of the Social Enterprise Taxation Royal Decree in Thailand, non-dividend social enterprises can waive their corporate taxes. In Malaysia, the government-instituted MaGIC (Malaysian Global Innovation and Creativity Center) has a social entrepreneurship promotions arm that provides grants and accelerator programs for promising social enterprises. In Belgium, social enterprises are entitled to a reduced VAT of six per cent and a tax exemption for some types of social businesses.

- **Align the ARMM's legal and macro-economic policy framework to the promotion of equitable resource allocation to social enterprise activities and development.**

For the social enterprise sector to flourish, more people should be informed about social enterprises and must subsequently be encouraged to enter the sector. This may include encouraging government leaders to integrate the promotion of social entrepreneurship as part of their city or regional agendas. By doing this, government leaders also encourage inclusive job and wealth creation for the most vulnerable groups in their area.

Establishing a government arm to oversee social enterprise development will also make opportunities more accessible to social enterprises, while better understanding the needs of the sector. This ensures that government resources are allocated efficiently and effectively.

In South Korea, cities are encouraged to submit a social enterprise support plan, which should include social service and job creation targets, and a strategy to achieve those targets with social enterprises. A corresponding budget for promotion and facilities is allocated to the plan, which needs to be submitted to the Minister of Employment and Labor for approval and monitoring. The Thai government has also invested USD \$3 million in 2010 for a five-year master plan to promote social enterprise development.

- **Recognise initial inequality of different social groups, which leads to different levels of benefits and access to benefits and design programs to overcome it. In some cases, this may mean the application of subsidies on behalf of 'poorer' sectors.**

Different levels of development would mean different levels of difficulties and obstacles to jumpstart the social enterprise. To support these ventures, government needs to provide additional incentives or grants that are targeted towards priority social issues and poorer sectors. Incentives can also be done through exclusive access to markets; for example, in a form of priority status in public procurement.

Public procurement in Europe, which represents approximately 16% of GDP within Europe, is an important source of funds for budding enterprises. European procurement law allows local government authorities to

insert social clauses in their procurement terms of references, such as long-term employment or inclusive employment for the disabled.

- **Promote Social Enterprise Education and Research**

Attracting more young talent in the social enterprise sector is imperative to sustain the long-term growth and development of social enterprises. By introducing the concept of social entrepreneurship in schools, more of the youth will be introduced to the concept and will eventually part of the growing social enterprise sector. Having social entrepreneurship in educational institutions will also encourage research and innovation from faculty, which can advance local social enterprise development. By understanding social enterprise development through research, policy makers can also implement the appropriate measures and initiatives to spur the growth of the sector even further.

To promote social enterprise education and research, the Thai government has provided scholarships and tuition fee waivers and provided social innovation research grants. In 2013, the Higher Education Council of England (HEFCE) launched a £2 million program to broaden support for social enterprises in universities across England. The program encourages higher education institutions (HEIs) to act as 'hubs' to support social enterprises in the local community.

The following are a set of principles, priorities, content and flavor to operationalise the set of policy recommendations above:

Principles

- Shari'a compliance
- Integrated Halal system

Priorities

- Access to loans
- Access to public procurement
- Productivity and sustainability measures
- Capacity building

Strategies

- Development Plan on Social Enterprise, including proposal for budgets by the Regional Legislative Assembly from the national government for sustainability
- Social Enterprise integration in regional anti-poverty programs
- Capacity Building
- Social Enterprise promotion in education
- Asset development (e.g. land for indigenous peoples) for their social enterprise initiatives
- Strengthening and sustaining OTOP in every province of ARMM promoting support system of SE activities and initiatives
- Creation of provincial IFTA Board to review all ordinances, resolutions, memoranda and executive orders for consistency with Shari'a for implementation, enforcement, and execution. This provincial Ifta Board shall be under supervision and control of the ARMM Darul Ifta.
- Promotion and strengthening of convergence of concerned ARMM agencies supporting and sustaining social enterprise (policy, financial, database, technical, mechanism and standards)
- Strong collaboration between the LGU and private bodies to provide alternative financial provisions in the market

Other areas

- Scholarship for students who will take up SE course, research support and community extension service support for faculty members

- Farming entrepreneurs are provided with start-ups grant/loan with profit sharing system (no interest rate)
- Institutionalisation of social enterprise education in the TVET curriculum
- Social enterprises integrated in the subject matter or scholarships and trainings provided in the ARMM local province
- Exchange student program for best practice in social entrepreneurs and vice versa (DepEd ARMM)
- Provision and institutionalisation of Islamic financial support to cooperatives and social enterprises in ARMM
- Awards and recognition

Next steps

The policy dialogues participants have identified some critical milestones to further the agenda forward. These are:

- Coordination with DTI-ARMM, CDA, TESDA, DA on strengthening and drafting the policy content taking into account the current legislative agenda on social entrepreneurship already filed in the House of Representatives and the Philippine Senate;
- Coordination with the offices of RLA champions— Assemblywomen Burahan and Anni
- Conduct of learning sessions on social entrepreneurship, the PRESENT Bill and the ARMM proposals with key stakeholders in the region;
- Participation in the next policy dialogues.