



LEGISLATIVE FACT SHEET

Social Enterprises

This information listed aims to provide supplementary notes to the proposed Bill, “An Act Providing for the Bangsamoro Cooperative and Social Enterprise Code (BCSEC) Of 2021 For the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM)”



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SOCIAL ENTERPRISES

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Social Enterprises

Definitions

Social enterprise is “widely used to describe entities that are run on business lines but whose aim is to “do good.” It is a synthesis of charities “whose founders aimed to achieve some social goal” and “businesses’ which are set up to sell goods or services, to make a profit for their founders, staff and investors.”ⁱⁱ

Social enterprises can also be defined as “organizations with a strong social mission which offer innovative entrepreneurial solutions to existing social problems in a sustainable way”.ⁱⁱⁱ

Development

Based on *Social Enterprises in Europe*, social enterprises develop from new co-operative initiatives emerged in Italy to respond to unmet needs for more work opportunities as well as the demand for personal services.

In contrast to traditional co-operatives who were primarily oriented toward members’ interests, these [social enterprises] initiatives were serving a broader community and putting more emphasis on the dimension of general interest. They also differed from traditional co-operatives in that they often combined different types of stakeholders in their membership (paid workers, volunteers and other



supporting members, etc.), whereas traditional cooperatives are usually single-stakeholder organizations.^{iv}

The emergence of new form of activity and social entity has pushed Italian parliament to provide the legal support to these initiatives:

In 1991, the Italian Parliament adopted a law creating a specific legal form for these "social solidarity co-operatives" – which were subsequently renamed "social co-operatives". The law distinguishes between two types of social co-operative: those delivering social, health and educational services, called "A-type social co-operatives", and those providing work integration for disadvantaged people, referred to as "B-type social co-operatives." *In 2005, there were more than 7,300 social co-operatives in Italy; they employed some 244,000 workers.*^v

The UK has followed Italy's social enterprising concept. The UK government defined social enterprises:

businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners^{vi}

Both Italy and UK's legal system on social enterprises offers essential idea on how the legal framework shall be designed to support social enterprises:

Both in Italy and in UK, social enterprises are thus embedded in the third sector. They are defined by their social purpose and the limitation on the distribution of profit that they impose upon themselves. In both countries too, social enterprises are active in a wide spectrum of activities. However, these two models also differ in some aspects. While the Italian laws stress a specific governance model, through a requirement to involve various stakeholders, the British model stresses the business character of social enterprise: although no reference is made to the percentage of market resources in the definition, it is widely accepted that a significant part (usually 50%) of the total income must be market-based for the enterprise to qualify as "social enterprise".^{vii}



Problem in Definition

The concept of Social Enterprise needs to be delimited. Can a business that does charity work and help its employees, and made its founding founders multimillionaire be considered as a social enterprise?

Enterprises which might be deemed to be 'social' by one of these criteria can very clearly fail to qualify under another, and we must avoid stereotypes; an enterprise which pays its managers what seem to be enormous salaries or another which has made its founders into multi-millionaires may benefit large numbers of needy people. The term 'social enterprise' is also sometimes used as if it was a way of saying that an enterprise is run in a 'business-like' way, properly controlling costs and measuring results, holding staff to certain standards of performance, with the unspoken implication that traditional 'charities' are almost inevitably sloppily managed, without any quantitative measures, because 'doing good' cannot be measured in the same way as profits. This can be dangerous because it gives any for-profit business the scope to make a small or merely cosmetic change to its existing way of doing business, and to add an environmental, social or governance dimension to it so that it can qualify as a 'sustainable' investment.^{viii}

Social Enterprises in UK

Here are some key developments in Social Enterprises in UK:

- British government statistics identify around 70,000 social enterprises in the UK, contributing the sterling pound equivalent of over \$30 billion to the economy and employing nearly a million people.^{ix}
- In 2005, it was estimated that there were some 15,000 social enterprises in the country.^x
- A Social Enterprise Unit was created in the Department of Trade and Industry to support their development. This unit was later transferred to Cabinet office, and it is now part of "Third Sector Office".^{xi}
- In 2004, "Community Interest Company" (CIC) was approved by the British Parliament. The CIC provides test and "an asset lock to ensure that the new entity [or a company] is dedicated to its expressed community purposes."^{xii}

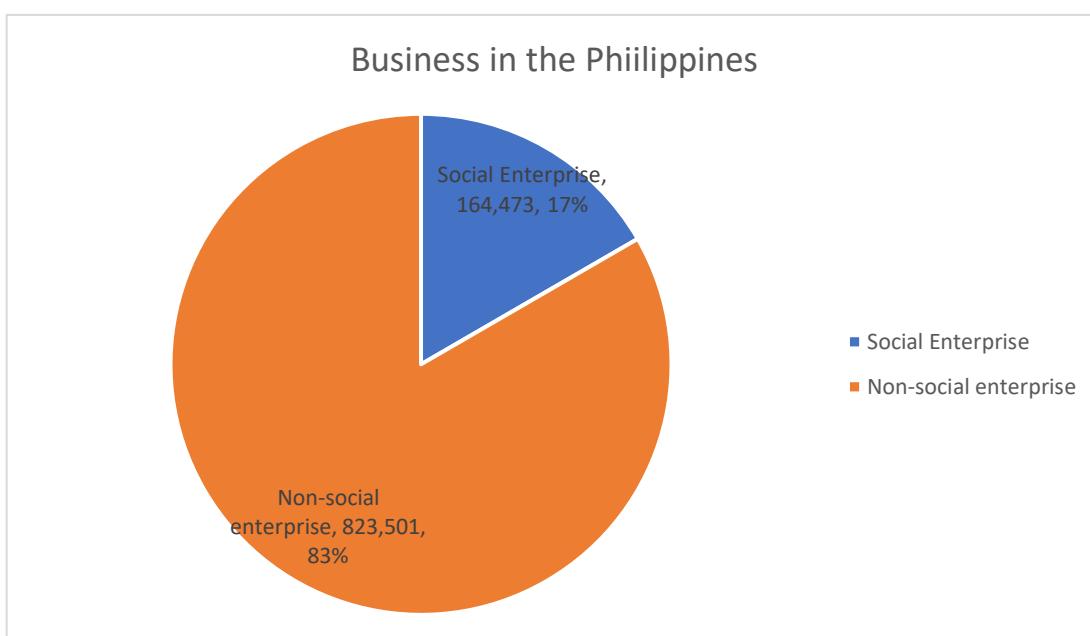
- The British experience of social enterprises is very positive. Its nation has witnessed “how it is possible to make the most efficient and at the same time the most equitable use of individual countries’ and the world’s resources, to create opportunities for everyone, and to demonstrate how business can be carried out more equitably.”^{xiii}

Social Enterprise in the Philippines

Current State

- Based on the research conducted by Asian Development Bank, social enterprises in the Philippines have great potential to address development gaps and achieve AmBisyon Natin 2040. ADB views social enterprises “as financially sustainable enterprises that intentionally generate positive social or environmental impact, social enterprises have been recognized nationally and internationally for their potential to achieve development goals, as seen in their inclusion in the Philippine Development Plan 2017–2022.”^{xiv}

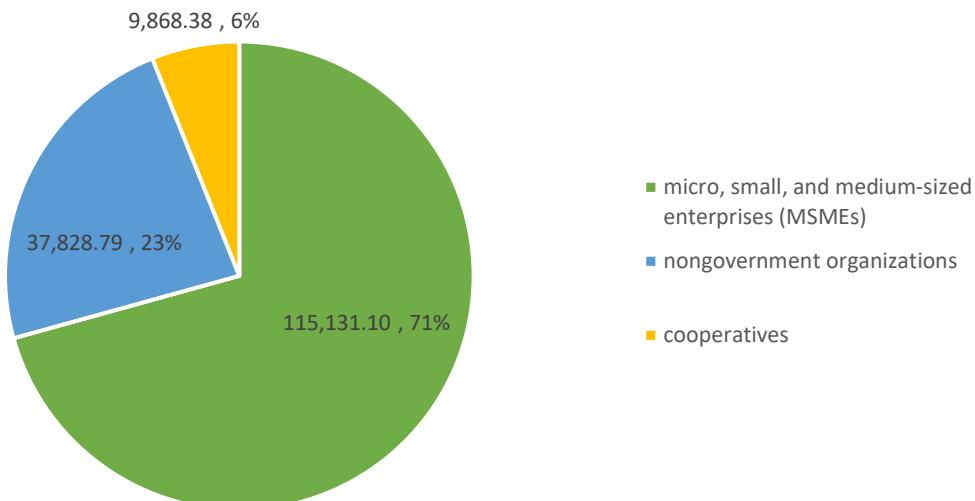
Graph 1. Presents the number and percentage of Social Enterprises in the Philippines



Source: Asian Development Bank

Graph 2. Presents the composition of Social Enterprises in the Philippines, with MSMEs being the majority.

Composition of Social Enterprises in the Philippines



Source: Asian Development Bank

- According to ADB, “Most social enterprises remain limited in size and scale due to critical gaps in (i) access to capital, (ii) innovative financial mechanisms to unlock additional capital, (iii) ecosystem knowledge of social enterprises, and (iv) data on social enterprise impact”^{xv}

Public Sector Support

- Social enterprises lack legal support in the Philippines, “they do not receive targeted support from the public sector beyond what is available to regular businesses or MSMEs.”^{xvi}
- Social enterprises face problems such as ambiguous tax regime, challenges in ease of doing business, and inadequate funding mechanisms while pursuing social goals.^{xvii}



- The Senate Bill No. 176 or the Poverty Reduction through Social Entrepreneurship (PRESENT) Bill, which promotes an environment conducive to the development and growth of a vibrant social enterprise sector, did not receive approval. ^{xviii}
- Republic Act No. 11032 or the Ease of Doing Business and Efficient Government Service Delivery Act of 2018 has been passed and signed into law, which is beneficial to social enterprises.
- Republic Act 11057 or the Personal Property Security Act allows for the expansion of the types of assets that can be used by MSMEs as collateral when applying for bank loans.

Promoting Social Enterprises in BARMM

In *Promoting Social Enterprise in ARMM: A Strategic Advocacy Paper*, which is a study on the feasibility and advantages of promoting social enterprises in ARMM, its key argument revolves around the assertion that social enterprises can present a long-term sustainable solution to the decade-long problem of security in the region. Promoting social enterprises shall make the region truly self-sustaining and independent, rather than being dependent on different external aids, both from national and international. As noted by the study, “the collective aim should be about serving to build local sustainable self-reliance which call for more significant role of the marginalized or vulnerable groups of people to design and manage their own solutions through social enterprise...[I]n essence, sustainable peace and development can occur only when business and government include communities as equal partners within a collaborative process of co-creation”^{xix}



END NOTES

ⁱ This Legislative Fact Sheet is prepared by Mr. Vincent L. Casil, Supervising Legislative Staff Officer II of Legislative Research Division, Policy Research and Legal Services.

ⁱⁱ Malcolm Harper, and Nadiya Parekh, *Social Enterprise: Cases and Analysis for Understanding Social Business* (New York: Routledge, 2021), 1.

ⁱⁱⁱ Harper and Parekh, *Social Enterprise: Cases and Analysis for Understanding Social Business*..., 3; Huybrechts, Benjamin, and Alex Nicholls. "The role of legitimacy in social enterprise-corporate collaboration." *Social enterprise journal* Vol. 9 No. 2, (2008), pp. 130-146; Thompson, John L. "Social enterprise and social entrepreneurship: where have we reached? A summary of issues and discussion points." *Social enterprise journal* Vol. 4 No. 2, (2013), pp. 149-161.

^{iv} Jacques Defourny, and Marthe Nyssens, "Social enterprise in Europe: recent trends and developments." *Social enterprise journal*, Vol. 4 No. 3, (2008), 5.

^v Defourny and Nyssens, "Social enterprise in Europe: recent trends and developments." ..., 6.

^{vi} Defourny and Nyssens, "Social enterprise in Europe: recent trends and developments." ...6.

^{vii} Defourny and Nyssens, "Social enterprise in Europe: recent trends and developments." ... 5 – 6.

^{viii} Harper and Parekh, *Social Enterprise: Cases and Analysis for Understanding Social Business*..., 2

^{ix} Harper and Parekh, *Social Enterprise: Cases and Analysis for Understanding Social Business*..., 6.

^x Harper and Parekh, *Social Enterprise: Cases and Analysis for Understanding Social Business*..., 6.

^{xi} Harper and Parekh, *Social Enterprise: Cases and Analysis for Understanding Social Business*..., 6.

^{xii} Defourny and Nyssens, "Social enterprise in Europe: recent trends and developments." ... 6.

^{xiii} Harper and Parekh, *Social Enterprise: Cases and Analysis for Understanding Social Business*..., 6.

^{xiv} Yukiko Ito and Durreen Shahnaz, "Road Map for Strengthening Social Entrepreneurship in the Philippines" *Asian Development Bank Briefs*, No. 112 (2019), 2.

^{xv} Ito and Shahnaz, "Road Map for Strengthening Social Entrepreneurship in the Philippines" ..., 2.

^{xvi} Ito and Shahnaz, "Road Map for Strengthening Social Entrepreneurship in the Philippines" ..., 2.

^{xvii} Ito and Shahnaz, "Road Map for Strengthening Social Entrepreneurship in the Philippines" ..., 2.

^{xviii} Ito and Shahnaz, "Road Map for Strengthening Social Entrepreneurship in the Philippines" ..., 2.

^{xix} The Bangsamoro Social Enterprise Advocates, *Promoting Social Enterprise in ARMM: A Strategic Advocacy Paper*, British Council in the Philippines, 5.