

Social Enterprises and an Equitable Post-Pandemic Economy

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Socio-political and economic overview and forecast

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Identifying key policies for the next administration: Lessons from the pandemic

Pandemic as the starting point

More than two years since its outbreak, the pandemic is far from over. Containing the pandemic or having pandemic preparedness is essential to full economic recovery.

In such context, distilling or grasping lessons from more than two years of fighting the pandemic is not simply an exercise to prepare for the next pandemic. It is hugely relevant at this very moment when the public officials and the people have shown either complacency or fatigue in fighting COVID-19.

The lessons to be learned are highly contextual. Comparing the Philippine performance with a global or even regional benchmark might lead to a dead end. The situation is so variable, and, in the end, any assessment has to be done based on our own standards, metrics, and objectives.



The pandemic revealed many weaknesses. What we want to address are the **MAJOR ROADBLOCKS**, or what economists would call “binding constraints.”

1. Addressing the **coordination** problem.

Collective action is closely related to the reform of institutions or the reworking of institutional arrangements. This is best seen in relation to the problems that emerged regarding the tasks and responsibilities of the **Inter-Agency Task Force for the Management of Infectious Diseases (IATF)**.

a) The IATF and problems within the national government

LESSONS:

01 Policy should first and foremost be guided by science and evidence.

- Policy should be guided by science and evidence, not politics. Politics always intervenes, but it must be subordinated to science and evidence in situations of national emergency.
- There are many examples in which this was violated – ex. the use of Ivermectin in treating COVID-19 patients, use of rapid antibody test, vaccination.

02 The Department of Health (DOH) must take the lead in formulating the strategies and plans that are consistent with the health mandate and policies that cohere with a whole-of-society, whole-of-government perspective and approach.



03 That DOH takes the lead in the IATF does not mean subordinating all pandemic-related policies to what the DOH says. What is important is that all government agencies, through DOH's guidance, adopt the health lens in the policies that they adopt and implement.

- The slogan should be *"Health in all policies."* Government agencies must integrate in their plans and strategies the health mandate. After all, the success of health does not only depend on pharmaceutical or health interventions but is related to deeper social and economic problems.



KEY LESSONS:

Review the mandate of the IATF, strengthen the health mandate and make explicit that DOH leads and guides the whole strategy, and other agencies adopt a health perspective.

Institutionalize private sector and civil society participation in the IATF. Selection of representative(s) must be based on clear criteria that include professional competence and technical expertise.

b) Disconnect between the national government (NG) and the local government units (LGUs).

"...the country needs one health authority for the entire system." That means having "a single command but with decentralized action at the provincial and city levels."

Juan A. Perez's, BusinessWorld (March 23, 2020)

There is already a provision in the law for the Health Secretary to practice central command or recentralize health function during times of pandemic, which could have addressed the disconnect between the NG and the LGUs.

The National Disaster and Risk Reduction and Management Council (NDRRMC) must also be revisited. The law creating the NDRRMC sees to it that the physical framework, social, economic, and environmental plans of LGUs are consistent with NDRRMC's.

Unfortunately, when the law was created, there was nothing about the pandemic. Hence, the response to the pandemic was not part of the orientation of the NDRRMC, and it was caught unprepared when the pandemic broke out.



KEY LESSONS:

DOH must exercise direct national supervision to address the coordination problem between the national government and LGUs.

NDRRMC could be used as a platform to respond to the pandemic.

With bad leadership, even these measures would not be enough. However, having rules in place will constrain a bad leadership and likewise enable a good one.



2. Strengthening Universal Health Care (UHC)

UHC is the main platform to provide both population-based and individual-based health services during the pandemic.

Some provisions in the UHC directly respond to the challenges we faced during the pandemic.

1. Creation of service delivery networks (SDNs) that use health facilities and providers that are scaled up to cover the scope of the province or city

It addresses the coordination problem involving different levels of LGUs as well as the coordination between the public and private sectors.

2. Adoption of the health technology assessment (HTA)

The Health Technology Assessment Council (HTAC) defines the rules on the use of various technologies to contain, prevent or treat diseases like COVID-19. A strong HTAC could have resolved the policy debates that dragged, such as how rapid anti-body tests can be used, vaccination approval, and the use of controversial drugs like Ivermectin.

3. Use of electronic medical records (EMRs)

A challenge during the pandemic was lack of information and lack of coordination which can be attributed to problems on data, interoperability of systems, and digitization which could have been addressed if the EMRs were in place.

Unfortunately, **UHC was barely in place when the pandemic emerged in early 2020**. The UHC Act was signed in February 2019, and it took time to finalize its implementing rules and regulations (IRR). Until now, the IRR remains general in its different sections, and requires a better articulation.



KEY LESSONS:

The DOH must review and revise the IRR and give flesh to it. At the same time, it must put in place or improve the practical guidelines on the critical areas of UHC, especially primary health, financial risk protection, access to health care facilities, enhancement of health workforce, SDNs, and EMRs.

Legislative Actions to Strengthen UHC and Improve Pandemic Response:

1. Amendment of **Procurement Act** towards making DOH more efficient and for it to focus on its core mission and competency.

Amending the Procurement Act towards being more responsive, efficient, and transparent benefits not only DOH but also the whole of government.

2. Reorient and re-engineer **Philhealth**.



The enactment of UHC has made Philhealth the center of how resources are allocated for universal health coverage. But Philhealth, as it is, does not have the technical capacity to do so. Amending the law is critical to make Philhealth efficient, less politicized, and technically competent.

3. Adopting the **Just in case** model

Javier Solana of the European Union used the term “just-in-case” to describe the model to be followed to meet acute shortages of essential goods in times of global crises.

The “**just-in-case**” model is juxtaposed with the “**just-in-time**” model, which is efficient because it provides that one only procures supplies when needed. But in a “just-in-case,” model, one gets the supplies, or even produce them even if those goods are not one’s comparative advantage, to be able to prepare for the *just- in-case*. The “just-in-case” attempts to avoid future shortages of essential goods.

It is also similar to “black swan” events—seemingly unpredictable events but having devastating or catastrophic impact. In fact, we now witness the increasing frequency of black swan phenomena like pandemics, economic crises, and wars. The COVID-19 pandemic brought to the fore both the relative and absolute scarcity of public goods.



KEY LESSONS:

It is critical to adopt a just-in-case model in essential public goods.

That suggests a country must stockpile vaccines, medicines, protective personal equipment, and other necessary products to fight the pandemic. It must have an adequate health workforce as well as a reserve workforce that can immediately respond to a pandemic or an epidemic.

4. Put in place a **Bold but Prudent** Fiscal Policy

The credibility of the Philippine structural reforms, including the tax reforms, gives confidence to the financial markets that higher levels of borrowing and deficits won’t lead to a debt crisis.

The Philippine government (as of January 2022) has borrowed PhP1.3 trillion for the fight against COVID-19, which will have to be repaid over 40 years.

Notwithstanding the steep rise in borrowing during the pandemic, **the Philippine has retained its investment-grade credit rating.**

Yet, government spending to fight the pandemic and provide social assistance at the height of the pandemic was inadequate. Even the private and multilateral creditors together with the economists believed that the government still had room to borrow and spend more.

The weakness in public spending impeded a quick, responsive, and efficient response. This became a constraint to bring down infection rates, boost medicines and supplies, strengthen healthcare facilities, increase health human resources, and protect the jobless and the hungry.



But the Philippine economic managers have been cautious. They want to *“keep our powder dry for a protracted battle”*. Arguably, there is good reason to exercise fiscal prudence. The politicians are prone to aggressive spending, but which is being allocated to activities other than a pandemic response. The funds, for example, are used for counterinsurgency or pork-barrel projects. And government agencies generally have weak absorptive capacity, resulting in wide differences between budget allotment and budget obligation.

The challenge for the incoming administration is how to address the heavy debt and eventually narrow the deficit, otherwise investors will worry. Even as the spending remains big, as we will have to adopt the “just-in-case” model, strengthen UHC, etc., we have to reduce the deficit, and this means generating revenues and tax reform.

Tax reforms remain incomplete. **The legislation of the proposed packages to reform real property valuation and passive income and financial taxes will be the task of the next administration.** Moreover, the gaps and distortions in the previous reform effort (e.g., the still significant number of transactions exempted from the value-added tax) have to be corrected. Taxing price-inelastic goods and services that cause negative externalities (e.g., sin taxes) is a good source of enhancing revenues.

Will the incoming administration meet the challenges?

“Economic recovery can only be sustained by containing the pandemic, but at the same time, even as we spend more to contain the pandemic and to reduce poverty, increase employment, and build infrastructure; we have a fiscal stage that is narrowing given the large deficit that we have right now. The question is whether the incoming administration is up to such challenges.”

- Past performance and behavior and pronouncements of the presumptive president make decision-makers and major stakeholders, foreign and local, worried, and nervous.
- This includes the opacity and lack of clarity of presumptive president’s program.
- His statements especially on the economy are questionable—they suggest fiscal irresponsibility at a time that the sustainability of the fiscal space is a key concern.

Highlights from the Open Forum

On opportunities or challenges for SEs with the new administration and prospects for micro and small enterprises in the next years after the pandemic and the elections of 2022

The small enterprises will be affected by the macroeconomy. For example, interest rates and inflation. Expectations of consumers and investors have impact on small and medium firms. The problem is, JP Morgan downgraded the Philippines recently. Months ago, Bloomberg made a poll among investors, and it indicated that Mr. Marcos had a failing mark. The investors are worried and that would affect their “animal spirits”. Its effect will be reduced investments in the Philippines which we need even for the small and medium industries.



This aggravated our other concerns. For example, we are a part of International Action Task Force (about tax evasion, money laundering, etc.) where we are on the gray list. We need to adapt the reforms to be taken out of the gray list. The goal is to make our rules and financial system more transparent so that tax evaders and money launderers will be prevented from doing their criminal activities. If we do not follow these reforms, we might be put in the blacklist. These are the challenges.

For opportunity, we will have to see. It will also depend on the quality of the Cabinet of the Marcos administration. We might want to look back at the Duterte administration as an example. A lot of investors and businessmen were likewise worried with a Duterte presidency. But ultimately, Duterte appointed decent technocrats like Carlos Dominguez and Karl Chua, and the investors calmed down. Maybe that can be a bright spot if we can get a decent technocracy. This will give some credibility for the administration. There will always be openings which we can maximize.

On the impact of the new administration on foreign investments

Yes, investors are very worried. If they would ever come in will depend on the pronouncements of the Marcos administration and the Cabinet he will be having in place. After all, business are business and they will get in regardless of the political administration. Biden's congratulation says something there. It is also about geo-politics. Even if they do not like Marcos, they will still play with Marcos because there are other big concerns for them. Foreign investors also take cue from their leaders.

On key actions needed for government to balance the need to spend more and the need to strengthen government organizational/coordination capacity

This involves short- and long-term measures. We do know that increasing the capacity of government takes a long time, but a pandemic requires immediate solutions. Conceptually, they have to go together but also requires us to effectively respond to the pandemic. The question is, there is going to be waste. Let's say there is another wave, wherein we need to provide benefits, social protection, cash assistance to the vulnerable, but the government does not have the capacity to spend, and even the spending is diverted. There is a dilemma there. One can take the position of 'let us not spend because a lot of the money would be wasted' or 'we should spend because the people need the assistance'. I would favor the latter, even if there is some waste, our main value is to protect peoples' lives and improve peoples' lives. The important thing is to still create the rules to reduce the waste and include transparency.

On sectors expected to experience gains in the next two to three years and how micro and social enterprises could position themselves to reap the benefits of these opportunities

(Answer on the normative and what ought to be) The role of micro and social enterprises have been underestimated by economists. We look at the big picture and how massive investments would come in. But there is an interesting insight from an economist named Danny Rodrik. He is saying that for a middle economy like the Philippines to become upper income, attention has to be given precisely to those small enterprises. They are the missing link. Industrial policy which has been accepted again, has been limited to helping the major players. But we forget the silent but very significant role played by the small industries. For an economy to become like a Korea or a Taiwan, we need to diversify. The concept of specialization is now put into



question. Specialization is still relevant, but it can go hand in hand with diversification of products. That suggests including the small and medium enterprises and integrating them into that bigger picture.

Can that be done? We have good people in the Department of Trade and Industry (DTI), and they know that. We hope that they will still be there. There is a professional core in the DTI, and they can help FSSI and similar organizations.

On signals to engage or disengage with the incoming administration

There is a role for the political and there is a role for the economic. For example, trade unions. Trade unions exist regardless of administration, and they have to continue their demand for wages, for fair conditions, etc. So, FSSI still has to do that. It is still part of the mandate. We have to hope for those reforms. But we also have to know that those reforms might not be sustainable if governance and the system are shut, and so we also have to do that. So, both the economic reform and the political struggle should go hand in hand.

Scaling the Impact of Social Enterprises

Marie Torres | Senior Manager, Investing in Women

Defining Social Enterprises

The concept of social entrepreneurship has become a big tent. Varying definitions makes it difficult for the ecosystem to support the sector to provide targeted interventions to help social enterprises to scale and maximize their impact. Often, SEs are clustered with MSMEs, hence they do not receive targeted support and would only receive resources given to regular businesses.

A useful definition is that **SEs** are businesses that are driven by a **social/environmental** mission and reinvest **profits** into creating positive **social** change

SE Landscape in the Philippines

SEs strongly focus on serving the poor and involving low-income and marginalized groups as producers and suppliers.

From Poverty, Shelter, Education, Water, Health...

Target groups and products offered by SEs have changed throughout the years.

- access to affordable (or alternative) products/ services
- access to alternative income
- ownerships and empowerment
- objectives go beyond the issue of poverty such as culture preservation, community building, gender equality, and environmental sustainability



Sector convergence

	VOLUNTARY ORGANISATION/ CHARITY	SOCIAL ENTERPRISE	SOCIALLY RESPONSIBLE COMPANY	TRADITIONAL PRIVATE COMPANY
DRIVEN BY	Charitable Mission	Social/ Envi Objectives	Profit Driven With Social Objectives	Profit Driven
INSTITUTIONAL GOALS	Support Disadvantaged population	Deliver sustainable solution	Appropriate value for stakeholders	Create sustainable advantage
FUNDED BY	Donations & Grants	Mix of Grants, Capital, Social Investments	Capital and Social Investments	Capital
VALUE OF GOODS & SERVICES	Free	Lower/Higher than market prices	Market Rate Prices	Market Rate Prices

Counting and Defining SEs

- 164,473 social enterprises or 17% of the total registered businesses. (Asian Development Bank, July 2019)
- 71% of SEs are micro, small, and medium-sized businesses. The remaining 23% are NGOs and 6% are co-ops.
- Despite the broad acknowledgment and acceptance of the social good being brought about by social enterprises, the progress of the sector has not really moved forward.
 - Lack of national law supporting SE development
 - Different definitions of social enterprises
 - Lack of reliable information on and assessments of the social enterprise sector
 - Lack of formal social enterprise-specific regulatory and monitoring guidelines in place (business registration of social enterprises remain low)
 - Lack of well-defined metrics to measure the social impact, financial viability, bankability, and scalability of social enterprises.

These are barriers to social enterprises' access to larger and longer term capital and sustained financial and technical support.

SEs are affected by the double economic shock

Demand: people don't have purchasing power to buy products and services

Supply: disruption in global and local supply chains

- **Falling revenues** due to travel and lockdown restrictions, lower demand
- **Financial liquidity challenges** in meeting non-discretionary expenses such as payroll, rent, and debt payment obligations
- **Fractured global and local supply chains** of raw material, lack of reliable transportation logistics for product shipment
- **Productivity issues and (women's) less time for work.** During the pandemic, women had to deal with additional responsibilities and affected their productivity.



SEs during COVID-19

(ISEA survey)

- 96% of PH's SEs have seen "moderate to severe downturn" during the height of the outbreak from March to April 2020
- 164,000 PH's SEs revealed that > 30% had no income, while 29% had sales fall by over 50%.
- SEs who are already sustainable, with diverse income sources and were in digital transformation even before the pandemic, tended to be survivors of the crisis

Build back better

- Impact is in the DNA of SEs
- Social entrepreneurship has profound implications in the socio-economic system: creating new industries, validating new business models, allocating resources to neglected societal problems and gluing communities.
- Social entrepreneurship is a key strategy in leaving no one behind and building back fairer in the Philippines.

Small Business Roadmap for Recovery and Beyond

(Deloitte)



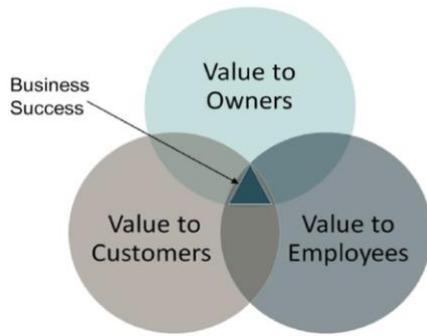
SEs and value creation

"Social enterprises are for social goals. They are not really meant for profit maximization. But they do generate profit. Sometimes profit is a negative word because we think of it as NGOs or as socially focused organizations or individuals – we shouldn't be generating profit. But profit is really needed, it's fuel for businesses to operate and to grow."

- Purpose of business is to **create and deliver value** in an **efficient way** that it will generate profit after cost.



Value Creation for Business Success



- Value creation can be measured through **Revenue**, ensuring the process of value undertaken wasn't worthless, if someone is willing to pay for it.
- You get value when you give value. Your business will only succeed if you provide great value to both your customers and to employees.
- *The value of products and services today is based more and more on **creativity**—the innovative ways that they take advantage of new materials, technologies, and processes. Value creation in the past was a function of **economies of industrial scale**: mass production and the high efficiency of repeatable tasks.*

There is an emerging trend wherein growing big is no longer the ideal. SEs can stay small, but they have to find their niche, continuously grow, create value without losing social mission.

“For SEs, you have to be clear on the onset that your growth path is not the same as other entities wherein they create products at a massive scale.”

Opportunities and Ways Forward

Scaling social enterprises and their impact

- Organizational growth or more of the same strategy
 - Handicraft and textile
- Diversification: New products or services
 - Digitalization or platforms
- Social franchising
 - An example would be the Foundation for Peoples' Sustainable Development Cooperative (FPSDC)'s HIVE program
- Strategic partnerships
 - An example would be the social enterprise Human Nature

 In terms scaling social enterprises, there are four elements of a business that has to be ready or has to be in place so that social enterprises could scale and reach their impact.

1. Market

Opportunity: Huge and untapped market

- Government
- Private sector/ large businesses
- SE2SE
- General public (online/ traditional)



Ways forward:

- Familiarity with government and private businesses procurement
- Good products
- Branding
- Consumer awareness campaigns
- Labels or certifications
- Incubators and intermediary linkage

2. Finance

Opportunity: Wide range of resources, right mix is crucial

- Impact/ social investors
- Grants providers, e.g. family/ corporate foundations
- Donors

Ways forward:

- Long term financial planning
- Financial system is in place
- Fundraising
- Investment readiness programs

3. Skills

Opportunity: High interest in entrepreneurship

- Enterprise Support organizations
- Universities and Business schools
- Digital technology

Ways forward:

- Business skills enhancement
- Social change competencies
- Cross learning between sectors
- Impact measurement
- Role models and mentors

4. Networks

Opportunity: Value creating Partnerships

- SE Associations and coalitions
- Government, especially LGUs
- Foundations
- Private sector/ large businesses

Ways forward:

- Stories of change, case studies
- SE market research
- Approval of the PRESENT Bill



Highlights from the Open Forum

On building a sustainable and resilient social enterprise with a limited capital

There is an element of time. You cannot grow any kind of enterprise quickly. You really have to be patient. If you have less capital, your growth will be slower.

Capital is one of the things that determines the growth trajectory of a company or an enterprise. If you have limited resources, there are ways to get things for free. Right now, there's a huge interest in entrepreneurship and sometimes it's not really social. One can still benefit from those free programs, training or accelerator, incubation program for early-stage businesses. There are different resources one can check. DTI has a good program on this, [QBO Innovation Hub]. Sometimes it is also good to join networks or some associations so one would know what grants are available.

On strategies, policies, or programs effective in getting start-up SEs investment-ready and promoting scalability to efficiently and effectively have more capital to achieve and ensure sustainable growth

One should find the right mix. As an entrepreneur, one should be selective as well. One needs money and capital. But, one should also ask if this is the amount that one needs. That is why financial planning is really important, knowing what you need. Otherwise, if one does not know his/her 'asks', and let others determine your need, then probably it will not be the right fit. Definitely, know what you need as an entrepreneur, as an enterprise.

Here in the Philippines, Investing in Women, is working with three (3) investors right now. FSSI together with FPSDC, inBEST, and Manila Angel Investors Network (MAIN) for those into tech but socially impact oriented. There are a lot of opportunities, there's a lot of sources. One just has to find the right network that will be easier to tap into. Entrepreneurship is not really a straight path. It takes years. It takes a lot of commitment. If you want to be a social entrepreneur, you have to think long term.

On strategies to maximize the huge opportunity of digital technology for economic development without sacrificing societal consciousness for solidarity and common good (such as experienced in the Philippine elections)

Technology is a double-edged sword. You can think of it positively, and there are also negative results or ways you can use it like what we've seen in the elections. That is also why there is more pressure from us, at least for people who see technology as force for good to make sure we are countering all the bad things around. If these people can use it for bad, then we can also use it for good. We can apply the same principles, although resource is an issue. There is a lot of information, on all sorts of things, not only politics. As social entrepreneurs, we have links to communities, it should also be our mission to lessen the misinformation, and also to have a battle plan to influence and change minds. We can think of technology as a way for one to help communities or business to grow faster or to have more resources or have more revenues. Technology is becoming a crucial ingredient of business success. For us in the development space, it is something that we still have to fully understand and combine with the other skills that we have.

