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DISCUSSION NOTE

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Impact-Driven Innovation and Entrepreneurship Ecosystem Review

JUNE 2022

The Innovation for Social Impact Partnership (ISIP) Project 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 implemented by the United Nations Development Programme in the Philippines (UNDP Philippines), with generous support from the Australian Embassy in the Philippines.

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 the United Nations Development Programme

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About this Report

This Discussion Note is based on a Full Ecosystem Review Report with the same title. The full report and this discussion note were prepared by QBO Innovation Hub which are both available for download on www.isip-ph.com. QBO is an innovation hub, or a platform for the startup community to collaborate, develop talent, and grow. It is the country's first public private initiative for startups, created through a partnership between IdeaSpace, J.P. Morgan, Department of Science and Technology, and Department of Trade and Industry.

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Impact-Driven Innovation and Entrepreneurship Ecosystem Review



Background

In the Philippines, there is growing recognition of entrepreneurship and innovation as agents supporting socio-economic development and empowerment. The growing entrepreneurial space is reflected in the one million micro, small, and medium enterprises (MSMEs) which make up 99 percent of all businesses in the country and provides a total of 5,510,760 jobs or 62 percent of employment.¹ Of which, 11 percent are categorized as social enterprises (SE) with a goal of creating community impact while generating revenue to sustain its operations and support its beneficiaries. According to a 2017 study by the British Council and the Philippine Social Enterprise network (PhilSEN), with support from the European

Union (EU) and the United Nations Economic and Social Commission for Asia Pacific (UNESCAP), there are as many as 164,473 social enterprises in the country, 70 percent operating as MSMEs, 23 percent as non-government organizations, and 6 percent as cooperatives.² Since there is no unified definition of an SE yet, this number considers other types of organizations such microfinance institutions, fair trade organizations, trading development organizations, and new generation social enterprises, which highlights the dynamic and fast-growing SE space.

Among the many challenges of social entrepreneurs, funding is by far the biggest.

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- 1 Department of Trade and Industry. (2019). "MSME Statistics". Retrieved from: <https://www.dti.gov.ph/resources/msme-statistics/#:~:text=The%202019%20List%20of%20Establishments,enterprises%20operating%20in%20the%20country.>
 - 2 British Council. (2017). "Reaching the Farthest First: The State of Social Enterprises in the Philippines". Retrieved from https://www.britishcouncil.org/sites/default/files/the_state_of_social_enterprise_in_the_philippines_british_council_singlepage_web.pdf

There have been many efforts to close the financing gap for SEs, and one concrete example would be the creation of the Innovation for Social Impact Partnership (ISIP) project. ISIP is implemented by the United Nations Development Programme (UNDP) in the Philippines, with generous support from the Australian Embassy in the Philippines, to support innovative Filipino SEs in areas such as capacity building, technical support, and policy reforms. According to ISIP's roundtable discussion with investors, the following barriers keep SEs from obtaining investments: limited ability to demonstrate required rate of return on investments; inability to absorb investor ticket sizes; misalignment of

enterprise and investor valuation; limited deal flow in the country; poor quality mentorship and advisory; and preference for organic growth over investment-assisted growth.³

In order to address the continuing challenge in financing for enterprises, there is a need to better understand the wider entrepreneurship ecosystem in the country and its players. UNDP in the Philippines engaged QBO Innovation Hub, the first public-private initiative for startups, to conduct an entrepreneurial ecosystem review with a particular focus on impact-driven enterprises (IDEs) namely, social enterprises, impact startups, and grassroots innovations.

Main Findings

This study realized the following challenges for impact-driven enterprises:

Lack of alignment on the definition of a “Social Enterprise” which has led to these enterprises being categorized as part of the commercial micro, small, and medium enterprises without distinction or incentive towards their added social value.

Limited representation, resources, and support for grassroots innovations, women-led, and youth-led businesses. Although the impact-driven ecosystem mapping canvas revealed a long list of existing resources and institutional support for IDEs, the inclusion of community-led solutions and participation of marginalized groups still need to be strengthened.

Mismatch in expectation and knowledge between funders and entrepreneurs that increases investment challenges and lessens deal flow.

As social and economic disruptions brought about by the COVID-19 pandemic continue, impact-driven enterprises suffer to survive and face recurring challenges in operations, sales, and funding. Although giving birth to more problem-solvers and entrepreneurs, the crisis highlights the importance of the supporting ecosystem to step up and provide tailor-fit support and interventions for IDEs, including policy considerations.

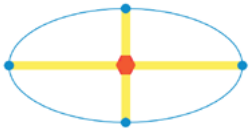
3 Innovation for Social Impact Partnership. (2021). “Issues Paper: Financing for Filipino Social Enterprises”. Investor Roundtable Discussion.

Next Steps

Some of the specific actions to address the challenges could include:



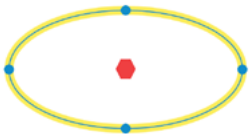
Establish an ecosystem-led definition of a “Social Enterprise”: This will allow the ecosystem to agree on a unified definition that clearly explains its inherent needs and concerns, empowering enablers to craft appropriate support mechanisms and target support for entrepreneurs.



Increase collaboration between ecosystem players: Organizing regular meetings, sharing best practices, and aligning on existing programs would help enablers strengthen existing support and create new initiatives to address unmet needs.



Facilitate financial literacy training for entrepreneurs: Enablers and investors should align on standardizing impact metrics and conduct learning sessions to educate entrepreneurs about the following: the investment process; different funding options; and expectations between funders and impact-driven enterprises.



Create a social impact fund and policy incentives for impact-driven enterprises: Adopt a new model that combines grants with equity funding to offer venture capitalists and angel investors a discounted rate when matched with a grant.

Recommendations

The following enabler-specific recommendations outline other potential actions to address ongoing ecosystem challenges:

Grassroots Innovations (GI):

- 1 Increase awareness of and media mileage of grassroots innovations to educate the public;
- 2 Acquire support from the national government and local government units (LGUs) for GIs;
- 3 Explore partnerships with universities and learning institutions to utilize their resources such as laboratories for prototyping and marketing classes for strategies;
- 4 Partner with companies' corporate social responsibility (CSR) teams to provide another option for projects available for funding;

- 5 Utilize existing technologies to create scalable solutions that can be replicated in other communities;
- 6 Create a database for existing grassroots initiatives and cooperatives to connect; and

- 7 Engage and consult with industry experts such as company executives or university professors.

Impact Startups:

- 1 Use standardized impact metrics to simplify assessments for investors and funding institutions;
- 2 Create a benchmark and share best practices with other impact startups;

- 3 Create regular impact reports regarding community stakeholders for accountability; and
- 4 Increase financial literacy for founders and balance prioritization of impact and business metrics.

Social Enterprises:

- 1 Use standardized impact metrics to simplify assessments for investors and funding institutions;
- 2 Benchmark and share best practices with other social enterprises;
- 3 Create regular impact reports regarding community stakeholders for accountability;

- 4 Understand available funding options and adjust business model and strategy accordingly; and
- 5 Ensure that the business fundamentals such as unit economics, go-to-market strategy, operations get enough prioritization as the impact component of the enterprise.

Ecosystem Enablers:

- 1 Increase collaboration between enablers and align existing programs and resources to prevent duplication of efforts;
- 2 Share available resources and expertise with other enablers;
- 3 Create more grassroots programs that engage the youth and women;
- 4 Connect successful entrepreneurs with newly established businesses for mentorship;

- 5 Establish smaller industry/sector-specific programs for more customized interventions;
- 6 Improve the organization of members and engage the government for new policies that will support IDEs;
- 7 Conduct training for IDEs regarding creating impact reports and using international standards for reporting; and
- 8 Pursue further studies to cover the experiences of women and youth with impact-driven enterprises.



Government:

- 1 Clearly define “social enterprise” and “grassroots innovation”;
- 2 Tag SEs and GIs during business registration and incorporation process;
- 3 Require yearly reporting of impact to retain SE or GI status and access benefits;
- 4 Provide incentives for SEs and GIs such as tax breaks, access to capital with friendlier rates, and grants;
- 5 Create a government Impact Fund used to invest or provide loans to impact-driven enterprises;
- 6 Match investments going to IDEs;
- 7 Promote collaboration of government agencies with social enterprises;
- 8 Provide incentives for investors (Angels, VCs, Banks, etc.) funding impact-driven enterprises;
- 9 Prioritize the passing of the PRESENT Bill with a revision on the definition of social enterprise to cover the different variations and reach of social enterprises;
- 10 Sponsor impact-focused programs by the government; and
- 11 Simplify the business registration process and filing of taxes.



Academe:

- 1 Create social enterprise classes or courses to expose students to this model early on;
- 2 Engage enablers and social enterprises for internship opportunities;
- 3 Provide IDEs access to facilities for prototyping and product development;
- 4 Use IDEs as case studies for marketing classes and the like to provide solutions or alternative strategies to founders; and
- 5 Aside from ideation programs for students, provide follow-up programs that will help in developing the business and founders.



Corporations:

- 1 Utilize CSR funds for engagements with social enterprises and grassroots initiatives;
- 2 Provide grants to impact-driven enterprises;
- 3 Engage with the ecosystem and its enablers to provide mentorship hours to entrepreneurs; and
- 4 Share industry knowledge insights to entrepreneurs.



Investors and Funders:

- 1 Create a separate fund specifically for social enterprises;
- 2 Establish clear impact metrics and expectations to be shared with founders;
- 3 Offer friendlier rates and requirements for impact-driven enterprises;
- 4 Conduct learning sessions educating entrepreneurs on the investment process; and
- 5 Explore different models for funding social enterprises in partnership with grant-giving institutions to help de-risk the investment and make it more attractive.

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