

The Philippine Social Economy: A Case Study

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Declaration

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Every daring attempt to make a great change in existing conditions, every lofty vision of new possibilities for the human race, has been labelled Utopian – Emma Goldman

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Abstract

This study of the Philippine social economy commenced in mid-2009, with the overarching purpose of developing an in-depth understanding of the social economy and its contribution to deepening economic democracy and promoting sustainable social development. To provide internationally comparable data on the social economy and the organisations that comprised it, the study undertook a comprehensive review of the literature on the social economy, social enterprise (SE), and fair trade organisations (FTOs) in Europe and the UK, USA and Australia. The study used a mixed method, complex multi-layered case study approach to understand the Philippine social economy and experiences of social enterprises and SE FTOs. By using secondary data analysis, the study mined archived data on the country's civil society and socioeconomic indicators from official and NGO sources to generate a profile of the Philippine social economy. Data were collected from two Case Study groups to illuminate the experiences of Philippine social enterprises and how these translated into their vision, mission and goals (VMG) of equitable sustainable development. Case Study 1 interviewed 69 research participants from SAFRUDI and 11 of its active and inactive community-based enterprise (CBE) partners, while Case Study 2 interviewed 13 research participants representing NGOs, SE FTOs, and civil society networks. The data collection method blended documentary or secondary analysis, focused interviews, fieldwork observation, focus group discussions, and daily journal keeping.

The review of literature revealed that social enterprise models from developed Western contexts influenced forms of Philippine social enterprise. The review showed two dominant ideological strands in social enterprise discourse: one that promoted it as an alternative to the unfettered market and another that viewed it as a solution to neoliberalism's twin crisis of legitimacy and accumulation. The first was represented by social science academics and supporters of social economy organisations, such as EMES, while the second was represented by Western governments, such as the EU, the UK, private philanthropic foundations, and social entrepreneurship networks. While there was still an ongoing debate in the literature about the nature of the social economy and social enterprise, other commentators believed that this provided the space and opportunity to be entrepreneurial, i.e., to be creative academically and not be constrained by the language of business and economics. European researchers, however, provided a first unifying step towards a theory of social economy through the plural economy or tripolar approach and a theory of social enterprise through the EMES social enterprise (EMES SE) concept.

The profiling of the Philippine social economy showed a pronounced blurring of boundaries among the three poles of the economy and a range of social actors that included not only NGOs and people's organisations but also INGOs, ODA donor governments and public sector agencies. Given the dual character of the economy, the Philippine social economy had limited impact in deepening economic democracy and promoting sustainable social development. The social economy, however, was found to be the glue that held Philippine society together, while the Filipino Diaspora's annual foreign remittances kept it alive. The experiences of participants showed the limited reach and scope of social enterprise. While they benefited a number of marginalised communities and producers, they were constrained by the nature of the capitalist market itself. Due to market isomorphism, translating their VMGs into practice was found to be problematic and challenging. The European plural economy framework showed the limits of the social economy against the dominant neoliberal market model.

This study makes significant contributions to the fields of economic sociology, social economy, and social enterprise development. As a mixed method, country comparative study, it adds to an in-depth understanding of the social economy, fair trade market, and social enterprise phenomena in selected developed countries and the Philippines. It adds to the conversation about the unsustainability of economic growth in the West, while the rest of the world is mired in poverty and political strife.

List of Abbreviations

ABS	Australian Bureau of Statistics
ACNC	Australian Charities and Not-for-profits Commission
ADB	Asian Development Bank
APFTI	Advocates of Philippine Fair Trade Incorporated
APRA	Australian Prudential Regulation Authority
ATO	Alternative trade organisation
AUD	Australian dollar
AusAID	Australian Agency for International Development
bn	billion
BDS	Business development services
CBE	Community-based enterprise
CDA	Co-operative Development Authority
CIDA	Canadian International Development Agency
COA	Commission on Audit
CODE-NGO	Caucus of Development NGO Networks
CPO	Contract production organisation
CSO	Civil society organisation
DTI	Department of Trade and Industry
EC	European Commission
EESC	European Economic and Social Committee
EU	European Union
EuSEF	European Social Entrepreneurship Funds
EMES	<i>EMergence des Entreprises Sociales en Europe</i> European Research Network
FLO	Fairtrade Labelling Organisation
FT	Fair trade
FTO	Fair trade organisation
GBP	Gabay sa Bagong Pag-Asa (Guide for a New Hope)
GBP	Great Britain pound when used as currency symbol
HDI	Human Development Index
HLO	Hired labour organisation
ILO	International Labour Organisation
INGO	International nongovernment organisation
ISDP	Integrated Social Development Program
JHCNSP	Johns Hopkins Comparative Nonprofit Sector Project
KS	Keep-Sake Employees' Savings and Loans Association
mn	million
MABS	Microenterprise Access to Banking Services

MASS-SPECC	MASS-SPECC Co-operative Development Centre
MFI	Microfinance institution
MSME	Micro, small and medium enterprises
NAPC	National Anti-Poverty Commission
NASSA	National Secretariat for Social Action-Justice and Peace
NATCCO	National Confederation of Co-operatives
NEDA	National Economic and Development Authority
NCR	National Capital Region
NCVO	National Council for Voluntary Organisations
NGO	Nongovernment organisation
NSCB	National Statistical Coordination Board
NSO	National Statistics Organisation
ODA	Official development assistance
PACAP	Philippines-Australia Community Assistance Program
PAGCOR	Philippine Amusement and Gaming Corporation
PBSP	Philippine Business for Social Progress
PCSO	Philippine Charity Sweepstakes Office
PhP	Philippine peso
PDP	Philippines Development Plan
PIVS	Panel on the Independence of the Voluntary Sector
PO	People's organisation when discussed within the context of social development work
PO	Purchase order when used for commercial transactions between social enterprise and CBE partners
PONPO	Program on Nonprofit Organisations
PRW	Piece-rate worker
PSE	Philippine social economy
RENI	Recommended Energy and Nutrient Intake
SAFRUDI	Social Action Foundation for Rural and Urban Development Incorporated
SBI	Social Business Initiative
SCE	Societas Co-operativas Europaea
SE	Social enterprise
SE FI	Social enterprise financial intermediary
SE FTO	Social enterprise fair trade organisation
SE IMO	Social enterprise intermediary marketing organisation
SEN	Social economy network
SEO	Social economy organisation
SEP	Social Enterprise Program
SFTMS	Sustainable Fair Trade Management System

SPO	Small producers organisation
SRA	Social Reform and Poverty Alleviation Act of 1997
SWS	Social Weather Stations
tn	trillion
TNC	Transnational corporation
TSO	third sector organisation
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	US dollar
VICTO	VICTO National Co-operative Federation & Development Centre
VMG	Vision, mission and goals
WFTO	World Fair Trade Organisation

Chapter 1

Introduction to the study

‘Poverty is not only a question of individuals’ lack of skills, work, capital and opportunities. Poverty is systemic, a socio-political malady’ – SAFRUDI board of trustees’ declaration of principles in the 1980s.

When the Philippines emerged as a medium HDI country in the mid-1990s, international development agencies and funding donors had already begun withdrawing from the country to focus their development assistance on Eastern European, African and other Asian countries like Vietnam and Nepal. ‘Sustainability’, ‘social enterprise’ and ‘counterpart funding’ became buzzwords in development work. Engaging in social enterprise became the all-consuming response to sustain nongovernment organisations and peoples’ organisations in the same vein as economic entrepreneurship was promoted as the magic cure for widespread poverty (United Nations Development Programme, 2004). Yet, poverty persisted.

However, any foreigner or *Balikbayan* (Filipino based overseas) visiting the country in the 21st century would be struck by the sprawling metropolitan areas with their fancy gated suburbs and gleaming high-rises sporting patrician-sounding names. Well-paved highways and modern infrastructure financed by foreign governments and multi-lateral agencies, such as the World Bank (WB) and Asian Development Bank (ADB), led to fast-urbanising regions in the countryside, whose pride of place is the ubiquitous fast-food chains and shopping malls. But, tucked away from these gleaming towers and gentrified suburbs are millions of urban poor squatters living in old, squalid buildings, in rickety houses near rivers and creeks and in the nooks and crannies of bridges. In interior upland communities, where the rural poor live, half-finished roads disappear during the rainy season. They are the poor whom economic development is supposed to benefit. Yet, they do not. Millions of Filipinos still lack skills, work, capital, and opportunities, and poverty remains systemic.

As a political activist and development worker, I also embraced the idea of social enterprise and economic entrepreneurship as a way out of poverty, as it seemed to be the middle ground between a totalitarian state and capitalist market run berserk. Yet, I also had a nagging feeling of its inherent limitations to redress the growing inequalities between the rich and poor, not only between developed and developing countries, but also within countries. Hence, this study, which

evolved from a narrow focus to examine the landscape of the Philippine social economy and the experience of SAFRUDI and its CBE partners, grew to include 13 NGOs and civil society networks engaged in market- and non-market-oriented development work.

Purpose of the study

The overarching purpose of this study was to develop an in-depth understanding of the social economy in the Philippines and its contribution to deepening economic democracy and promoting sustainable social development. The study aimed to do this by utilising European understandings of the social economy through concepts such as the ‘plural economy’ or ‘tripolar approach to economy’, ‘hybridisation’, ‘fair trade as hybrid form of market’, and the ‘EMES SE’ approach. Since there had been no prior study applying such approaches to the Philippines social economy, a study of this nature was needed to provide internationally comparable data on the social economy in the Philippines.

Aims of the study

This study had several aims, to contribute to the growing body of empirical research on the social economy of the Philippines by developing:

1. A profile of Philippine social economy organisations (SEOs) in terms of the plural economy or tripolar framework and related explanatory concepts.
2. An understanding of the relationship between these SEOs and the nature and extent of their contribution to the social – and national – economy.
3. Knowledge of the day-to-day activities of these organisations and their impact on local communities.
4. Evidence-based information for policy makers to apply in formulating and implementing a supportive legal and regulatory framework for social enterprise development.

Research questions

Based on the above purpose and aims, the study asked two major research questions:

1. What is the nature of the Philippine social economy in general?
2. How do market and non-market social economy organisations operate in particular?

To answer the two major research questions, two sets of overarching research questions were formulated for the broad social economy and the two case studies (see below).

Research questions relating to the broad social economy:

1. What are the historical roots of the Philippine social economy and what discourses sit behind the construction of the Philippine social economy?
2. How is the social economy in the Philippines organised or structured?
3. Who are the most influential social actors in the social economy sector and how do they exert their influence?
4. What is the nature and extent of the social economy's contribution and how is this measured?
5. What legal and regulatory framework governs and supports the social economy?
6. What are the main challenges facing the Philippine social economy?

Research questions relating to the two case studies:

1. To what extent can the case studies be considered social enterprises?
2. To what extent can the case studies be considered fair trade organisations?
3. What are the economic, social and governance issues and challenges and how are these addressed?

Research questions relating to Case Study 1: SAFRUDI and CBE partners

1. What is the scope of SAFRUDI's operations?
2. What is its main source of income?
3. Who are its key stakeholders?
4. What key partnerships strengthen its activities?
5. How many people or community-based enterprises benefit from its activities?
6. What benefits do they enjoy?
7. What organisations attached to SAFRUDI identified as social enterprises?
8. How is this identity translated into their vision, mission and goals (VMG)?
9. What are the strengths and weaknesses of SAFRUDI in deepening economic democracy and promoting sustainable social development?

Research questions relating to Case Study 2: NGOs

1. What social economy organisations identify as social enterprises and comprise the market-oriented subsector?
2. What does it mean to be a social enterprise?
3. How is this understanding of being a social enterprise translated into the VMG of social economy organisations?
4. What opportunities are available to social enterprises?

Theoretical approaches and methodology

The study synthesised several European approaches to the study of social economy and organisations comprising it. The synthesis included the plural economy or tripolar framework, explanations of hybridisation, the notion of fair trade as a hybrid market, and the EMES SE concept and its application to FTOs. Internationally, this seemed to be a first in utilising the approach to study the social economy and SEOs in the Philippines. The tripolar framework discussed in Chapter 3 offered a holistic, integrated approach that seemed relevant to the study of the social economy in the Philippines. The framework posited that, in pursuing their mission to deepen economic democracy and promote sustainable social development, SEOs hybridised the values and activities of the three economic sectors: the community/household, public/state and private/market (Evers, 2008; Evers & Laville, 2004b; Laville & Nyssens, 2001). This proposition was tested in the study by profiling the Philippine social economy through an analysis of SEOs – their vision, mission and goals (VMG), the reach and scope of their operations, and nature of their economic contribution.

The study sought to understand how Philippine SEOs operated within these economic sectors and how the wider regulatory environment enabled or restricted their activities in the social economy. The EMES SE framework with its economic/entrepreneurial, social and participatory governance dimensions (Defourny & Nyssens, 2010, 2012) provided criteria for analysis that were then applied to non-SE FTOs in Case Study 2. These were NGOs and civil society networks providing market and non-market products and services to people's organisations, CBEs, co-operatives, and NGO microfinance institutions (MFIs). The articulation of fair trade as a form of hybrid market (Becchetti & Huybrechts, 2007; Huybrechts & Reed, 2010) and the application of the EMES SE concept to European FTOs (Huybrechts & Defourny, 2008) were utilised to interrogate SAFRUDI and CBE partners – social enterprises selling handicrafts in the international and national fair trade markets in Case Study 1, and SE FTOs and FT networks in Case Study 2.

A mixed method research design (Creswell & Tashakkori, 2007) was employed for this study. This enabled the collection and analysis of data from multiple sources and triangulation of research methods to ensure the accuracy and trustworthiness of the data gathered. Several prior research studies had employed a mixed methods design combining secondary data analysis and the case study approach in doing country or regional-level research on the social economy (see for example Borzaga & Defourny, 2001; Chaves & Monzón, 2007; Powell & Steinberg, 2006; Salamon et al., 1999). This study used secondary data analysis and a complex multi-layered case study approach recommended by Yin (2009).

The next section discusses the Philippine poverty situation as the context of the study. The discussion begins with the oft-changing definitions of poverty measurements, which have lowered poverty incidence since 1991, and the controversies they ignite. Official poverty data are then compared with the self-rated poverty measurement developed by the Social Weather Stations (SWS), a non-profit social science research institute, to present a more complete picture of the Philippine poverty situation.

The context of the study

Poverty in the Philippines

The Philippines has a rapidly increasing population said to be growing at a rate of 2.36% per annum or more than 5,000 people a day in a country that has already recorded an increase of more than four million poor people since 1985 (Asian Development Bank [ADB], 2009). In 1985, the absolute number of people living in poverty was 26.5m. This increased to 30.4 million in 2000 and from 2006–2009 by almost 970,000 from 22.2–23.1 million (Philippine Development Plan 2011–2016).

According to the Philippine government, poverty has a rural face: three out of four Filipinos who are poor reside in rural areas (National Economic and Development Authority [NEDA], 2004). It remains the most critical social problem in the Philippines, where the current poverty line marks a per capita income of 16,841 pesos per annum (USD390) (Dela Cruz, 2011). The National Statistical Coordination Board reported that 27.9% of the population fell below the poverty line in the first semester of 2012, approximately a one per cent decrease since 2009, which was not statistically significant (National Statistical Coordination Board [NSCB], 2013). However, this was much lower than the 1991 figure of 33.1% (Virola, 2011).

While the poverty incidence seems to have gone down over the years since 1985, it is doubtful whether this could be attributed to a more equitable distribution of income. The reason is

the government has been changing the official definition of the poverty threshold: once in 1992, then in 2003, and then again in 2011. The changes have made it difficult to ascertain the real poverty situation. To illustrate, in 2006 – using the 2003 official poverty measure to compute the poverty threshold – the poor comprised 27.6 million people (33% of a population of 82.29mn) or three in 10 individuals (NSCB, 2008). Using the 2011 official poverty measure, the number of poor declined to 22.2 million in 2006 and 23.1 million in 2009 (Virola, 2011). An average of these three figures gives an estimate of about 24.2m poor in the Philippines. Official figures for 2012 report 27.9% or 28.4 million people living below the poverty line. Although the poverty incidence may be declining, the population’s high annual growth rate may also be hindering significant reductions in poverty. Estimates showed that from 94.85 million in 2011 the population rose to 103.77 million in 2012 (see Table 1.1).

Table 1.1: Poverty figures in the Philippine

Year	Number in mn	%	Population in mn*	Source
1985	26.5		54.05	Philippine Development Plan 2011–2016
1991		33.1	63.15	Virola (2011)
2000	30.4		77.31	Philippine Development Plan 2011–2016
2003	19.0		82.29	Dela Cruz (2011)
2006	22.2		87.12	Philippine Development Plan 2011–2016
	27.6	33.0		National Statistical Coordination Board (2008)
2009	23.1	26.5	91.70	Philippine Development Plan 2011–2016
				National Statistical Coordination Board (2011)
2011			94.85	
2012	28.4	27.9	103.77	National Statistical Coordination Board

* World Bank

The Philippine government has no official definition of poverty though it has defined who the poor are and what characterises poverty in terms of the *Social Reform and Poverty Alleviation Act of 1997* (SRA):

individuals and families whose income falls below the poverty threshold as defined by the National Economic and Development Authority and/or cannot afford in a sustained manner to provide their minimum basic needs of food, health, education, housing and other essential amenities of life (Section 3. (o), Social Reform and Poverty Alleviation Act of 1997).

The ever-changing poverty threshold refers to the minimum income or expenditure required to meet basic food and non-food requirements. The food threshold is determined by the

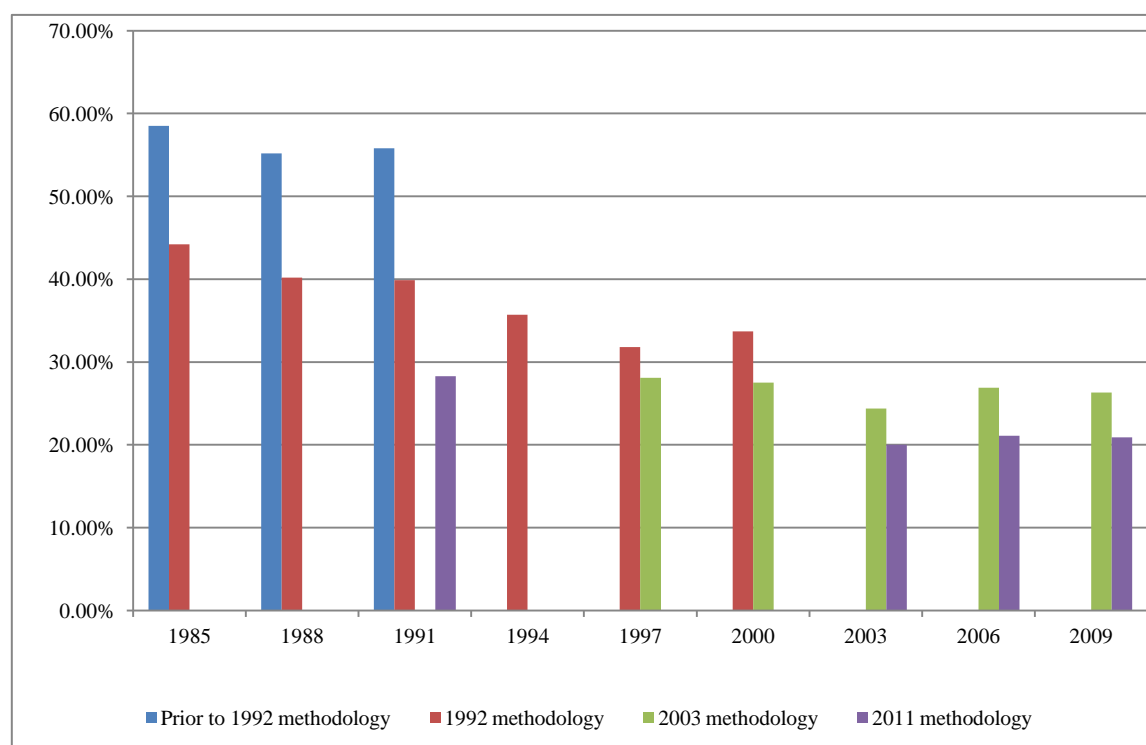
least costly basket of food required to meet nutritional requirements for a family of five based on ‘100% adequacy for the Recommended Energy and Nutrient Intake (RENI) for protein and energy equivalent to an average of 2000 kilocalories per capita, and 80% adequacy for other nutrients’ (NSCB, 2011). The non-food component includes expenditures on: clothing and footwear, housing, fuel, light and water, maintenance and minor repairs. It also covers rental of occupied dwelling units, medical care, education, transportation and communication, non-durable furnishings, household operations and personal care and effects (NSCB, 2011). Furthermore, the SRA defined the terms ‘urban poor’, ‘relative poverty’, ‘absolute poverty’, ‘poverty alleviation’ and the ‘basic sectors’ that are the targets of poverty alleviation discussed in Chapter 6.

Although there is no international methodology for measuring poverty (Virola, 2011), the main problem in determining the poverty line in the Philippines is the arbitrary way in which statistical data are generated. This has led to a great deal of controversy since each change in the formula for determining the poverty datum line effectively lowered poverty estimates and making comparisons over space and time well-nigh impossible (ADB, 2005; IBON Foundation, 2012; NSCB, 2011). Before the ousting of the Marcos dictatorship in 1986, the poverty incidence among families was estimated to be 58.5% (Virola & Encarnacion, 2003). By the time the Cory Aquino government’s term of office ended in mid-1992, it had reduced to 55.8% due to a change in methodology which excluded alcohol, tobacco, recreation, durable furniture and equipment and other miscellaneous expenditures from the non-food basic needs basket (Virola & Encarnacion, 2003, n.p.). Thus, the situation for families appeared to have improved (Figure 1.1). However, the World Bank described the food threshold measurement, which was based on regional computation, as ‘too liberal [when] compared with other countries’ (Orbeta, 1996, p. 3). Hence, further ‘refinements’ were made in computing the food threshold in 2003 and 2011 (NSCB, 2011).

The 2003 methodology changed the computation of the food basket from regional to provincial prices, while the 2011 methodology sought to improve the comparability of the estimates across space and over time by using the ‘test of revealed preferences’ recommended by a World Bank consultant (NSCB, 2011). However, commentaries abound as to the real intent of these changes (IBON Foundation, 2012; Mangahas, 2011) since, for example, the number of food items in the 2011 methodology was reduced from 13 to 10 and the type of food and its preparation was simplified to accord with the poor’s consumption habits. This glossed over the fact that consumption habits, like moving from sautéed mung beans with *malunggay* (*moringa oleifera*) leaves and small prawns to boiled mung beans with *malunggay* and dried small fish, changed because the poor could no longer afford the sautéed prawns. Nevertheless, the 2011 food threshold estimates produced the desired outcome of a much lower poverty rate of 20.9% as compared with 26.3%

using the 2003 measures (see Figure 1.1). Going back even further to 1991, the 1992 and 2011 poverty incidence estimates showed a considerable difference against the old standard used: 55.8% (old methodology), 39.9% (1992 methodology) and 28.3% (2011 methodology) (see Figure 1.1).

Figure 1.1: Comparison of poverty incidence among families from 1985 to 2009



Sources of data:

Poverty incidence among families from 1985 to 1991 using old methodology prior to 1992 change (Virola & Encarnacion, 2003)

Poverty incidence among families from 1985 to 1994 using 1992 methodology (NSCB, in Orbeta, 1996)

1997 and 2000 data using 1992 methodology (NSCB, in Asia Development Bank (ADB), 2005)

1997 to 2009 data using 2003 methodology (http://www.nscb.gov.ph/poverty/2006_05mar08/table_1.asp)

1991, 2003 to 2009 data using 2011 methodology (http://www.nscb.gov.ph/poverty/2009/table_1.asp)

Given the resultant distorted poverty statistics reported in 2011, the Department of Welfare and Social Development, the lead government agency for poverty reduction programs, such as the Conditional Cash Transfer, decided to revert to the 1992 measures. These informed the country's commitments to the Millennium Development Goals of halving poverty from 44.2% in 1985 to 22.1% by 2015 (NSCB, 2011; Virola, 2011). More importantly, however, these political manoeuvres brought into question the impact of the government's anti-poverty and social reform programs and the contribution of social economy organisations. Table 1.2 shows that even with the change in measurement, the poverty situation in the Philippines has not improved despite modest economic growth, averaging 4.8% between 2000 and 2010. Despite reducing the number of

impoverished Filipinos, the annual population growth keeps the Filipino poverty rate high with progressive increases over the years. For example, using the 2003 methodology, the number of poor Filipinos increased from 23.8 million in 2003 to 28.5 million in 2009. The 2011 methodology reduced the number of poor individuals but the upward trend remained. Based on the National Statistics Organisation's census of population every 10 years, the Filipino population reached 60.7 million in 1990, 76.51 million in 2000 and 92.3 million in 2010.

Table 1.2: Estimates of poverty incidence (unit in mn)

Poverty incidence	2003	2006	2009
Among families using 2011 methodology	3.3	3.7	3.9
Among families using 2003 methodology	4.0	4.7	4.9
Among individuals using 2011 methodology	19.8	22.2	23.1
Among individuals using 2003 methodology	23.8	27.6	28.5

Source of raw data: Virola, 2011

These economic measures of poverty overlook its multifaceted dimensions, not least the resultant social inequalities (Maxwell, 1999; Sen, 1999). Nevertheless, economic language permeates the poverty discourse. For example, the ADB (2005) defines poverty as a deficiency of access to 'essential *assets* [human, natural, physical, social and financial *capital*] and opportunities to which every human is entitled' (p. 10 emphasis added). This deficit language is entrenched in notions of *chronic* poverty meaning always living below the poverty line and *transitory* poverty to describe the transient poor who move in and out of poverty over time (Reyes, in ADB, 2005; Lim, 2009; NEDA, 2004). The transient poor are mostly farmers who are vulnerable to external shocks and natural disasters. A NEDA study found that one-fifth of the population could be described as 'chronically poor', while a third lived in 'transitory poverty' (NEDA, 2004). This differentiation between the chronic and transient poor became central to the development discourse (NEDA, 2004).

Another idea popularised in the Philippines by the Social Weather Stations or SWS was the 'self-rating' poverty measure which asked the head of the household to rate the family's standard of living and the amount of income necessary to meet basic needs, including food, in order to consider themselves 'not poor' and non-food poor. A comparison of the SWS data with official poverty line estimates from 1985 to 2009 (see Table 1.3) shows that the percentage of Filipinos who considered themselves 'poor' was higher when compared with government figures but this has been a declining trend since 1985. Interestingly, the SWS data for 1985, 1988 and 1991 were closer to official

estimates using the old methodology. For this study, official data on poverty incidence by sector and by region were used (see Table 6.2 on p. 196 and Table 6.9 on p. 220 in Chapter 6).

Regardless of this confusing array of poverty measures, the incidence of poverty has remained significantly high when compared with other countries over the last decade. The Philippines poverty rate is roughly the same as that of Haiti. Among the poorest ASEAN countries, the Philippines was behind Laos, Myanmar and Cambodia (NSCB, 2011). The Philippines Development Plan 2011-2016 outlined the government's program to halve extreme poverty from a 33.1% in 1991 to 16.6% by 2015 but poverty reduction has not kept pace with GDP growth rates, largely due to high unemployment, high inflation, high population growth, wide income disparities and huge social inequalities (NEDA, 2011b).

Table 1.3: SWS family self-rated poverty versus official poverty data

Year	Self-rated family poverty incidence	Official poverty incidence among families	Methodology used
1985	74%	58.5% / 44.2%	old methodology / 1992
1988	66%	55.2% / 40.2%	old methodology / 1992
1991	67%	55.8% / 39.9%	old methodology / 1992
1994	68%	35.7%	1992
1997	59%	31.8%	1992
2000	57%	33.7%	1992
2003	60%	24.4% / 20.0%	2003 / 2011
2006	54%	26.9% / 21.1%	2003 / 2011
2009	49%	26.3% / 20.9%	2003 / 2011

Source of data: Social Weather Stations website (<http://www.sws.org.ph/>) and Virola (2011)

Thus, given the widespread poverty that continues to beset the Philippines, two case studies were chosen in order to ascertain how social enterprises contribute to mitigating it. The next section describes the SEOs included in Case Study 1 and Case Study 2.

Case Study 1: SAFRUDI and its CBE partners

SAFRUDI was established in 1966 by Sr. Juliaan Mullie, icm, a Belgian nun, as the Social Action for Filipino Youth (SAFFY). Its singular goal was to 'fight hunger through work' (SAFRUDI, 2001, p. 4). To achieve this goal, SAFFY set up vocational training workshops in Metro Manila's sprawling slum communities. In 1970, SAFFY was formally registered as a non-profit, non-stock corporation at the Securities and Exchange Commission. Its first board members were prominent individuals

from the religious, business, government and educational sectors. In its incorporation, SAFFY's name was changed to Social Action Foundation for Rural and Urban Development, Inc. or SAFRUDI. The change set the stage for SAFRUDI's eventual expansion to rural communities as agrarian unrest and rural poverty fed the exodus of the landless poor to urban cities. The organisation, however, retained 'SAFFY' as its trade name for its burgeoning export business.

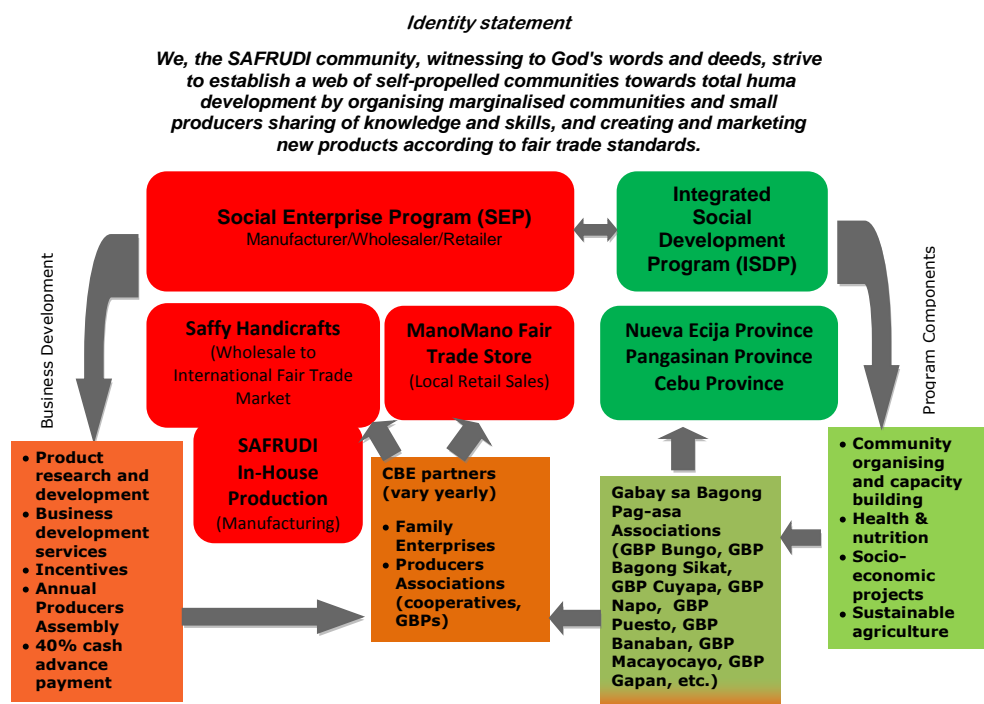
Realising that fighting hunger through work was not enough to address poverty, SAFRUDI's social mission changed to total human development in the mid-1970s. However, with an increasingly repressive Martial Law regime in the late 1970s, SAFRUDI infused its mission with a theology of liberation approach. Together with other progressive Church-supported NGOs, the organisation saw that poverty was not only a subjective condition but was abetted by unjust social and political structures. Thus, in tandem with economic development through export, rural organising and political advocacy were interwoven in SAFRUDI's social mission. In addition to organising rural handicraft producers and its sewing business, SAFRUDI integrated other producers' co-operatives and family enterprises in its export market. A reading of SAFRUDI's history from its founding in 1966 to 2001 (SAFRUDI, 2001, pp. 7-9) demonstrated that it was very much at the centre of the solidarity and alternative trade movement (see also Chapter 4) before the label 'fair trade' caught on in the 1980s and the concept 'social enterprise' became fashionable in the 1990s. In partnership with other faith-based alternative trade organisations (ATOs) in Europe, North America, Japan, Australia, New Zealand and Philippine NGOs, SAFRUDI promoted alternative trading as a means to 'conscientise the First World on Philippine and Third World realities' in the 1980s (SAFRUDI, 2001, p. 7). However, the organisation's history also showed that being in the alternative trade movement did not guarantee freedom from cyclical business shocks and shifting market demands.

Viewed from the social economy approach, SAFRUDI is both a market and non-market organisation. It has two program divisions to achieve its social mission: the social enterprise program which is embedded in the organisation and the integrated social development program. As a market-oriented, fairly trading social enterprise, SAFRUDI has three functions: (i) manufacturer; (ii) wholesaler/exporter of handicrafts; and (iii) retailer. As a non-market social economy organisation, SAFRUDI, through its ISDP division, functions as a traditional NGO. As such, it engages in assisting marginalised rural communities through (i) community organising and capacity building; (ii) provision of health and nutrition services; (iii) socio-economic project development; and (iv) sustainable agriculture. For its advocacy, SAFRUDI focuses on promoting fair trade as a business practice. It is a member of global and national fair trade networks, such as the World Fair Trade Organisation and its country affiliate. As such, the organisation collaborates with other fair

trade organisations in promoting fair trade in the Philippines and celebrating the annual World Fair Trade Day held during the month of May. Hence, as a social economy organisation SAFRUDI cannot be classified into either a market-oriented social enterprise alone or a non-market NGO since the two are integral in achieving its social mission. The organisational structure of SAFRUDI is illustrated in Figure 1.2.

Eleven CBE partners of SAFRUDI participated in this study. Based on SAFRUDI's classification of partners, seven CBEs were 'active', i.e., supplying handicrafts for at least two consecutive years; two were 'inactive', i.e., still existing as organisations but not supplying regularly and two were defunct enterprises. Of the seven active CBE partners, only one was a producers' association organised by SAFRUDI, while the rest were family enterprises. In total, there were 69 individual research participants with 33 coming from SAFRUDI and 36 from CBE partners.

Figure 1.2: SAFRUDI programme chart



Case Study 2: NGOs and civil society networks engaged in social enterprise

There were 13 NGOs and civil society networks research participants in Case Study 2. Except for three network secretariats, 10 had a similar organisational structure as SAFRUDI blending market-

and non-market-oriented activities with their various partners and stakeholders, including public sector organisations. The research participants were classified as social enterprise intermediary marketing organisations (SE IMOs, n=5), social enterprise financial intermediaries (SE FIs, n=5) and social economy networks (n=3). Three of the SE IMOs were fair trade organisations involved in export and local trading like SAFRUDI; one was an IMO for organic agricultural produce, while one was newly engaged in the export trade of marine products. All of the SE FIs were engaged in microfinancing and lending programs. One SE FI partly owned a rural bank and founded various other SE subsidiaries, while one invested in a coconut coir manufacturing plant. The research participants all adhered to a vision of sustainable development expressed through either the fair trade principles or the triple bottom line concept popularised by corporate social responsibility advocate John Elkington (1999). The succeeding sections discuss the significance of the study, its scope and limitations, definition of key terms, and the structure of the thesis.

Significance of the study

This study contributes primarily to the fields of economic sociology, social economy and social enterprise development. As far as is known, it is the first comprehensive study of the Philippine social economy using the plural economy framework and related explanatory concepts, such as hybridisation, fair trade as hybrid market, and the EMES SE approach. It found that synthesising and applying the tripolar framework and the various related concepts proved challenging in a country where the blurring of boundaries and interdependency of the three economic poles has been more pronounced than in the West.

As a mixed method, country comparative study, it adds to an in-depth understanding of the social economy and social enterprise phenomena in selected developed countries and the Philippines. By using a complex multi-layered case study approach and triangulating the experiences of SAFRUDI and CBE partners with Case Study 2 research participants, it provides a thick description of the Philippine social economy and social enterprises that deviated from the heroic and self-sacrificing depiction of social entrepreneurs.

The study showed that doing social enterprise was not as easy and exciting as it was promoted. The majority of the research participants had been in social enterprise development since the late 1990s but translating their VMGs into practice remained problematic and challenging. Trade-off was common and poor producers and workers were the first to be sacrificed for organisational viability. While spaces in the market had been carved by social enterprises, the private sector was also counterpoised to take advantage of these spaces.

By demonstrating the limitations of the social economy and social enterprise as a way out of poverty and, for developed countries as a means of solving the twin crisis of capitalist accumulation and legitimacy, the study adds to the growing body of critical literature that questions the limits of economic growth in the West and offers radical and creative re-imaginings to replace a pathological capitalist economy of which even Schumpeter (1943) might be proud.

Scope and limitations of the study

The study limited the mapping of the Philippine social economy to databases archived online by Philippine civil society networks, government agencies, international nongovernment organisations and development agencies. Consequently, a number of social economy organisations, such as hospitals, were not included.

The study also limited its case study groups to NGOs whose development programs, including their social enterprise activities, were familiar to the researcher. Thus, it omitted social enterprise experiences that might have provided a different story. These included charitable organisations that sub-contract basic social service delivery with the Department of Social Work and Development and co-operatives, people's organisations and microfinance NGOs that act as funding conduits for the government's microfinance program for the basic sectors.

In addition, the study was not able to analyse in-depth the wealth of information gathered from government agencies. Analysing the COA audit reports is a research project in its own right. Furthermore, fieldwork data deemed not relevant to the research inquiry but relevant to other areas of study were not used. Although the study has demonstrated that the Philippines may have a surfeit of laws governing various types of social economy organisations, the study did not involve in-depth policy analysis.

Definition of key terms

Basic sector as defined in the *Social Reform and Poverty Alleviation Act of 1997* (SRA) comprises the artisanal fisher folk, children, farmers and landless rural workers, Indigenous Peoples and cultural communities, urban poor, migrant workers, people with disabilities, senior citizens, victims of disasters, women, workers in the formal and informal sectors and youth and disadvantaged students.

Civil society as conceptualised by three schools of thought (Edwards, 2004) is: '*part of society*' that celebrates associational life; a '*kind of society*' that nurtures and reinforces 'positive norms and values' to achieve social objectives; and 'the *public sphere*' (p. 10 original in italics).

Civil society organisations (CSOs) in the Philippines are nongovernment organisations within civil society. The term, however, is used more popularly to refer to NGOs engaged in political advocacy, environmental protection, and other social movements, such as foreign debt relief and the Mindanao Peace Process (Coronel Ferrer, 1997; Encarnacion Tadem, 2011). The term CSO is used synonymously with third sector organisation (TSO), NGO, and social economy organisation (SEO).

Community-based enterprises (CBEs) are enterprises owned and managed by marginalised groups such as people's organisation, co-operatives, women's groups and producers' associations in this study.

Fair trade is defined as a 'trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, disadvantaged producers and workers, especially in the South . . . Fair Trade is more than just trading: it proves that greater justice in world trade is possible. It highlights the need for change in the rules and practice of conventional trade and shows how a successful business can also put people first' (World Fair Trade Organisation [WFTO] Europe website).

Hybridisation means the positive process of blending the values and characteristics of the three economic poles: the public/state, private/market and community/household economy. Evers (2008) wrote that hybridisation takes place through the following four dimensions: resources, goals, governance, and emergence of a hybrid organisation embodying the first three dimensions. Its opposite is organisational isomorphism.

Market-oriented social economy organisations (MO SEOs) is a distinction made in the social economy framework to separate market – private business – and non-market-related activities – in the social economy sector. MO SEOs are distinguishable from state and civil society organisations by their market-related activities and main goal of profit generation for and distribution to their members. These MO SEOs might also support the social mission and for-profit arms of CSOs and NGOs.

Nongovernment organisations (NGOs), also sometimes referred to as CSOs, are organisations in civil society engaged in service provision under diverse auspices representing various social sectors, such as churches representing the religious sector and disability organisations and networks representing people living with disabilities. NGOs overlap non-market-oriented and market-oriented social economy organisations. The term NGO, rather than nonprofit organisation, is the most commonly used term in the Philippines.

Non-market-oriented social economy organisations (NM SEOs) are civil society organisations referred to within the social enterprise discourse as third sector or not-for-profit organisations that provide non-market-oriented services to members and households. Any surplus generated is invested back into the organisation to support its servicing operations.

Organisational isomorphism means negative hybridisation (Evers, 2008), i.e., the positive ‘traits’ carried by social economy organisations are weakened by adaptation to the market or regulatory environments. Examples include mission drift, undemocratic decision-making, co-optation, dilution of SEO or FT values, and ethical- or fair-washing.

Profile of the Philippine social economy is a term used in this study to mean the categorisation of Philippine social economy organisations according to the three economic poles or sectors in the EMES framework: the public/state, private/market and community/household sectors; and the two subsectors of the social economy: market-oriented subsector and non-market-oriented subsector.

Social economy, also referred to as the third sector, is the intersection of the three poles or sectors said to comprise the economy: the public/state, private/market and community/household sectors (Evers & Laville, 2004a; Pestoff, 1992). The social economy is further sub-divided into the market and non-market-oriented subsectors and also includes hybrids of the three economic sectors, e.g., community-based enterprises, a hybrid of the market and community household poles. Monzón and Chaves (2008) define the ‘social economy’ as:

The set of private, formally-organised enterprises, with autonomy of decision and freedom of membership, created to meet their members’ needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses amongst the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote. The Social Economy also includes private, formally-organised organisations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them (Monzón & Chaves, 2008, p. 557).

Importantly, the social economy approach draws organisations within the private – family and household and civil society – sectors into the economy. It sees the whole of society through the lens of economic priorities and activities. In effect, the social economy is the realm through which people not employed in the mainstream economy are engaged in economic activity to sustain their livelihoods. Hence, the term ‘formally-organised’ does not necessarily mean being legally

registered in relevant government institutions as data shows that majority are unregistered associations (United Nations, 2003). One classic view of the social economy discussed in Borzaga and Defourny (2001) is the organisational view that the social economy comprises co-operatives, mutuals, associations (nonprofits), and foundations.

Social economy organisations (SEOs) include the whole range of civil society organisations or nonprofits that engage in market- and non-market-oriented services to sustain themselves and benefit their members. Notably informal family- and household-based production systems are now seen as SEOs within the social economy framework.

Social enterprise (SE) refers to new types of market-oriented social economy organisations. Some SEs are created through legal fiat, such as the UK community interest company (CIC), while some SEs belong to the older families of social economy associations, such as cooperatives and friendly societies. As a concept, social enterprise embraces all market-oriented social economy organisations, whether they come from an older family of associations within nongovernment and civil society or new legal forms. In this study, social enterprise is used to mean market-oriented social economy organisations, hence the terms ‘social enterprise’ and ‘market-oriented SEO’ are used interchangeably. The EMES social enterprise framework (Defourny, 2001; Defourny & Nyssens, 2008; Defourny & Nyssens, 2012) with its three dimensions and corresponding three indicators as criteria was utilised to examine Philippine SEOs, generally and the two case studies, specifically.

Social entrepreneur is an indefatigable social change agent who exhibits the traits and characteristics of entrepreneurs in the private sector (Drayton, 2005). Dees (1998) wrote that through the following actions they practice social entrepreneurship:

- ‘Adopting a mission to create and sustain social value (not just private value),
- Recognising and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting heightened accountability to the constituencies served and for the outcomes created’ (p. 4).

Social entrepreneurship is defined as the process by which nonprofit organisations and philanthropic individuals *use business skills* to increase the efficiency of their organisations and achieve their social aims or to activities of for-profit organisations using social development and social work principles to address societal problems (Alter, 2006b; Gray, Healy, & Crofts, 2003; Mair, Robinson, & Hockerts, 2006b).

Social investment, also referred to as social impact investment, or socially responsible investment, is defined by the act of actively sourcing and placing capital in investment products that generate social and/or environmental good with a market-related return to the investor.

third sector is used synonymously with social economy sector. In the same vein, third sector organisations are used synonymously with social economy organisations.

Triple bottom line is a term that arose in the corporate social responsibility discourse to refer to business' responsibility not only to employers and the economy but also to social development and environmental sustainability. Hence the triple bottom line refers to the economic, social and environmental aspects of business responsibility.

Value chain approach is an economic rationalist or neoliberal business tool popularised by international development agencies, such as the USAID, and used by Philippine NGOs under their influence to delineate the market system by making industries the unit of analysis. Where actors fit in the value chain depends on the various processes in which firms are engaged as well as their scale and market share in the industry. It is a hierarchical model in which input suppliers are placed at the lowest or bottom end of the chain while global retailers comprise the apex or top end. The closer the business is to mass consumption, the higher it is on the value chain hence global retail is seen as the 'end-market'. Each level of the chain has higher added value. It puts small business at the lower end in relation to big business at the top end. Included in this value chain are the support services provided by other market actors to the industry, including technical, business and financial services, all of which are industries in themselves. Thus there are feeder industries supporting major industrial sectors. Within the value chain approach all sectors are seen as part of the economy and evaluated in terms of their contribution to the economy. Value means 'economic' value, that is, only those items that can be costed and measured have value. Important to the value chain is the business environment in which the industry is situated. An ideal environment is one with minimal government intervention where business can be transacted in an unregulated, non-restricted manner. A key factor in this approach is that social activities, like knowledge production, become an industry now measured in terms of its economic value, hence the rise of the knowledge economy in which knowledge is commodified and traded and its value determined by its utility to end-users and consumers. The value chain approach leads to a valuing of activities for their instrumental purposes.

Structure of the thesis

The thesis comprises ten chapters. This chapter introduced the study and outlined its subject matter, namely, the Philippine social economy as a response to poverty alleviation. It outlined the difficulties of measuring poverty in the Philippines pointing to the challenges inherent in trying to discern the contribution of the Philippine social economy to overall social development. It then outlined key terms used in this study to mark the rise of the social economy or social enterprise development as a key platform in neoliberal development strategies to produce economically active citizens engaged in productive economic industries within profit-driven social economy organisations, at the base of which are the family and household. Chapter 2 examines the historical emergence, discourses, and contributions of the social economy in Western countries, such as the UK, EU as a region, the USA, and Australia. Chapter 3 discusses in-depth the European understandings of the social economy through the tripolar or plural economy perspective, and the related explanatory concepts of the process of hybridisation, fair trade as hybrid market, the EMES SE approach and its application to SE FTOs. The frameworks were synthesised to analyse the broad social economy and the two case studies. Chapter 4 then provides the historical and geographic context in which the study is situated to explain how the notion of the social economy in the Philippines arises within the discourse of civil society. The chapter addresses the first research question relating to the broad social economy (see Table 1.4). Chapter 5 describes the methodology used in the study and rationale for using the tripolar approach and the EMES SE framework in structuring and analysing the Philippine social economy and SEOs comprising it. The chapter explains how the fair trade principles were incorporated in the EMES' SE dimensions and indicators. Chapter 6 reports on the findings related to the profile of the Philippine social economy through the lens of the plural economy. The chapter addresses research questions two to four relating to the broad social economy. Chapters 7 and 8 present the findings to the research questions relating to Case Study 1 SAFRUDI and CBE partners. Chapter 8 comprises vignettes of CBE partners' threatened survival due to the unintended consequences of SAFRUDI's policies. Chapter 9 presents the findings to the research questions relating to Case Study 2 NGOs and civil society networks engaged in social enterprise. Chapter 10 presents the study's conclusions and implications and outlines areas for further study.

Table 1.4: Structure of the study

	Where addressed in the study
Research questions relating to the broad social economy	
1. What are the historical roots of the Philippine social economy and what discourses sit behind the construction of the Philippine social economy?	Chapter 4
2. How is the social economy in the Philippines organised or structured?	Chapter 6
3. Who are the most influential social actors in the social economy sector and how do they exert their influence?	Chapter 6
4. What is the nature and extent of the social economy's contribution and how is this measured?	Chapter 6
5. What legal and regulatory framework governs and supports the social economy?	Chapters 5 and 6
6. What are the main challenges facing the Philippine social economy?	Chapters 6
Overarching research questions relating to the case studies	Chapters 7 to 9
Research questions relating to Case Study 1: SAFRUDI and CBE partners	
1. What is the scope of SADRUDI's operations?	Chapters 7 and 8
2. What is its main source of income?	
3. Who are its key stakeholders?	
4. What key partnerships strengthen its activities?	
5. How many people or community-based enterprises benefit from its activities?	
6. What benefits do they enjoy?	
7. What organisations attached to SAFRUDI identified as social enterprises?	
8. How is this identity translated into their vision, mission and goals?	
9. What are the strengths and weaknesses of SAFRUDI in deepening economic democracy and promoting sustainable social development?	
Research questions relating to Case Study 2: NGOs	
1. What social economy organisations identify as social enterprises and comprise the market-oriented subsector?	Chapter 9
2. What does it mean to be a social enterprise?	
3. How is this understanding of being a social enterprise translated into the VMG of social economy organisations?	
4. What are opportunities available to social enterprises?	
Conclusion and recommendations	Chapter 10

Chapter 2

Conceptual approaches to social enterprise

Since the 1990s, accompanying the global spread of neoliberalism, there has been an explosion of literature on the rise of the social economy around the world. Commentators in the developed, post-industrial North have extolled the importance of social enterprise and social entrepreneurship in addressing economic and social problems, lauding its potential contribution to social change and transformation in poor and developing countries in the South. Hard on the heels of this ‘entrepreneurial fervour’ sweeping the globe in the 1980s, came disregard for countries’ ‘level of development or even their basic mentality or value orientation towards business activities’ (Alvarez, in Swedberg, 2000, pp. 7-8). Business and management schools dominated the study of and theorising about the entrepreneurship phenomenon with the social science disciplines later playing catch up (Swedberg, 2000). Hence the literature on social entrepreneurship treads the same route as that of business or economic entrepreneurship. Despite emanating from the context of civil society, early theorising and discourse was dominated by scholars and practitioners linked to business schools at prestigious US universities, supported by wealthy US philanthropists and foundations (P. Hall, 2006). Among the early theoreticians were lawyers, sociologists and economists associated with the Program on Nonprofit Organisations (PONPO), a research project launched by Yale University in 1976 (P. Hall, 2006). According to P. Hall (2006), the PONPO study laid the groundwork for limiting the scope of the US nonprofit sector to organisations bound by what Hansmann (1980) called the ‘nondistribution constraint’ (p. 838). Other prominent scholars included Lester M. Salamon at Johns Hopkins University, who, in 1991, pioneered a comparative global study of the nonprofit sector in 28 countries (Salamon et al., 1999; Salamon, Sokolowski, & List, 2003); J. Gregory Dees at The Fuqua School of Business, Duke University, who studied the traits and characteristics of social entrepreneurs (Dees, 1998); and William Drayton, founder of ASHOKA Innovators for the Public, an international association of social entrepreneurs, who is widely acknowledged for coining and popularising the label ‘social entrepreneur’ (Drayton, 2005; Pozen, 2008).

In Europe, leading academics formed the EMES (*EMergence des Entreprises Sociales en Europe*) European Research Network which published the pathbreaking *Emergence of Social Enterprise* (Borzaga & Defourny, 2001), an empirical study of the social enterprise phenomenon in 15

European countries. The study located social enterprise in the third sector or social economy and offered a socioeconomic approach to studying the phenomenon. With the adoption of the EMES framework, the Organisation for Economic Co-operation and Development (OECD) supported new policies and legal frameworks, which were adopted by several European countries to support and strengthen their respective social economies (Chaves & Monzón, 2007).

The global spread and scale of social entrepreneurship has widened the scope for policy discussion and debate. Researchers from the social sciences, including social work, sociology, economics, anthropology and psychology, in Australia, the USA and Europe, are coming together to study social enterprise and social entrepreneurship, thereby enriching the discourse and contesting the received wisdom of business and management (Amin, 2009b; Borzaga, 2004; Hjorth & Steyaert, 2004; Mair, Robinson, & Hockerts, 2006a; Nicholls, 2006c; Steyaert & Hjorth, 2007a; Ziegler, 2009). Although business and management language dominates, the field is highly fluid as evidenced by myriad definitions of 'social entrepreneurship', 'social enterprise' and 'social entrepreneur' (Nicholls, 2006c; Parkinson & Howorth, 2008). The varied use of the terms 'social economy', 'civil society sector' and 'third sector' further adds to the confusion (Monzón & Chaves, 2008; Moulaert & Ailenei, 2005; Moulaert & Nussbaumer, 2005) mirroring debates in the study of entrepreneurship that began in the 1980s and 1990s (Gartner, 1989). Nevertheless, many commentators appear to agree that 'social entrepreneurship' refers to the activities of nonprofit organisations and philanthropic individuals *using business skills* to increase the efficiency of their organisations and achieve their social aims or to activities of for-profit organisations using social development and social work principles to address societal problems (Alter, 2006b; Gray et al., 2003; Mair et al., 2006b).

A review of the global literature on social enterprise revealed that despite efforts by the social science disciplines competing to be heard, three major theoretical approaches appeared to be spreading internationally: (i) the US variant of the *nonprofit sector approach*; (ii) the European *social economy approach* (Borzaga, Galera, & Nogales, 2008; Defourny, 2001; Ridley-Duff & Bull, 2011); and (iii) the UK government's *third sector approach*, which seems to combine the European social economy and US nonprofit approaches. Hence, the particular approach inevitably adopted and promoted in developing countries depends on which part of the globe development funding agencies come from (Kerlin, 2006).

Being a developing country that receives major funding from Australia, Europe and the USA, the Philippines is not immune from the confusion generated by these competing approaches. In 1998, the Philippines participated in the Johns Hopkins Comparative Nonprofit Sector Project (Cariño & the PNSP Project Staff, 2001) as a result of which North American foundations, such as

ASHOKA, established offices in the Philippines and competitions for social enterprise development projects (e.g., BiD Network) and entrepreneurship awards (e.g., Ernst and Young Entrepreneur of the Year Award) followed. In 2009, a Filipino ASHOKA ‘youth venturer’ was hailed by CNN as its ‘Hero of the Year’. In recent years, several studies and toolkits on Philippine social entrepreneurship have been published with support from international development agencies eager to see the impact of their financial assistance to NGOs, NGO-managed microfinance institutions and peoples’ organisations (POs) (Dacanay, 2004, 2009; Philippines-Australia Community Assistance Program [PACAP], 2009). In 2008, a documentary video entitled *Building Social Enterprises in the Philippines: Strategies for Local Development*, co-produced by the Australian Research Council, AusAID, The Australian National University and Unlad Kabayan Migrant Services Foundation was launched. Also, in September 2009, a major university in Manila, together with a newly-formed Philippine Social Enterprise Network, held the first-ever national conference on Philippine social entrepreneurship. Two years later, a second conference followed to discuss the challenges confronting Philippine social enterprises (Philippine Social Enterprise Network, 2011).

Given the diversity of the literature on social enterprise around the world, it is impossible to cover the whole gamut of the discourse and debates here. In September 2009, for example, a Google search using the keywords ‘Philippine social enterprise’ yielded 834,000 results, while a search for ‘Philippine social entrepreneurship’ generated 755,000 hits. Two years later, by October 2011, a Google search for ‘Philippine social enterprise’ garnered 3,390,000 results, while ‘Philippine social entrepreneurship’ generated 1,250,000¹. Thus it was necessary to limit the literature review to the experiences of countries or regions whose social enterprise sector is relatively well developed and whose level of academic theorising is more advanced than that of the Philippines, including Australia, Europe (as a region) and the USA. Furthermore, these countries or regions are major donors to Philippine social and economic development initiatives.

The purpose of this chapter is to outline the discourses on social enterprise and social economy in Europe and the UK, the USA and Australia that may have influenced the discourse and forms of Philippine social enterprise discussed in Chapters 4 and 6. The cross-country comparison was structured according to the research questions relating to the broad social economy. These subjects or themes and what they encompassed are shown on Table 2.1.

¹ A Google Scholar search in September 2014 of articles (excluding patents) mentioning ‘social enterprise’ yielded 2,130,000 hits.

Table 2.1: Criteria for cross-country comparison of social enterprise models

Criterion	Description
1. Emergence of social enterprise	Discusses the historical, sociocultural and economic contexts and social actors that gave rise to the phenomenon. These include emergence of concepts such as the ‘third sector,’ ‘social economy,’ ‘civil society,’ ‘non-profit sector,’ ‘social economy organisations,’ ‘social enterprise,’ ‘social entrepreneurship,’ ‘social entrepreneur,’ and academic and interest groups.
2. Major conceptual approach or framework	Describes the larger conceptual framework developed by academics and practitioners to understand the phenomenon in the country or region. Among competing frameworks, only one major approach is discussed per country or region. The critique of the framework is not included in the discussion but is integrated in 5. <i>Challenges and critiques</i> .
3. Legal and regulatory environment	Discusses the regulatory environment in which social enterprises or third sector organisations operate; what the existing laws are and proposed laws to support third sector organisations. It also describes the sector’s relationship with the public sector and the market.
4. Scope and contribution to the economy	Illustrates the social and economic problems that social enterprises address and their socioeconomic activities and provides facts and figures that demonstrate the size and economic contribution of the social economy sector.
5. Challenges and critiques	Describes the strengths and weaknesses of third sector organisations in deepening economic democracy; challenges from the public and private sectors to mould the social economy sector to serve their interests; and critiques from social science disciplines.

Historical context in which social enterprise emerged

To a certain extent, the emergence of social enterprise in Australia, Europe and the USA in the 1990s can be attributed to the twin failures of the welfare state and the market to meet the socioeconomic needs of citizens forced to initiate alternate ways of surviving in the face of declining public services (Gray et al., 2003). In the UK under Margaret Thatcher and the USA under Ronald Reagan, however, it was the deliberate policy of the government to reduce the public bureaucracy and privatise social welfare services. In the USA, this led to a burgeoning nonprofit sector (P. Hall, 1992, 2006; Hammack, 2001) subsequently bolstered by George Bush’s faith-based initiatives. Another major reason for their emergence was the socioeconomic and political crisis that began in the 1950s and the search by progressive groups for alternative development models that combined the virtues of capitalism and socialism without their excesses (Defourny, 2001; Kerlin, 2006). Etzioni (1973) labelled associations seeking to address public issues through private means ‘third sector organisations (TSOs)’, which, he claimed, combined ‘the best of both worlds’ (p. 315) *by providing public goods and services with market efficiency*.

Reliance on faith-based welfare capitalised on a strong philanthropic tradition flowing from religious beliefs and practices. Religion has been a compelling motivator for charitable giving in all the major religious traditions, both Eastern and Western (Defourny & Develtere, 1999; P. Hall, 2006; Robbins, 2006). This is equally true of the Philippines. According to Robbins (2006), charitable giving has taken various forms over the centuries. For example, ancient Jewish landowners set aside a portion of their farm for the poor to harvest crops for themselves. During the Byzantine era, wealthy Catholics gave donations to the Roman Catholic Church for the building of schools and hospitals, while wealthy Europeans in the 19th century invented 'scientific philanthropy' (p. 25) to ensure efficient and effective use of charitable trusts for the poor. Although appeals to civic virtue have become the rallying cry for modern charitable giving, scholars, such as Bellah, Madsen, Sullivan, Swidler, and Tipton (2008), Hudson (2002) and Morgan (2008, cited in Ridley-Duff & Bull, 2011), believe that the underlying motivation for many philanthropists still stems from spiritual and moral sentiments and it is these sentiments that neoliberal governments have used to further their 'moral underclass discourse' (Levitas, 2005) and welfare austerity. Indeed, a reading of the history of the third sector in the four countries attests the significance of organised religion in contributing to the vitality of the sector.

While these are powerful sentiments to help disadvantaged groups, social commentators also demonstrate that charity and philanthropy, whether emanating from religion or vested political interests, help perpetuate unequal structures of power and wealth (P. Hall, 2006; Ridley-Duff & Bull, 2011; K. C. Robbins, 2006). According to P. Hall (2006) and Robbins (2006), organisations in the third, nonprofit sector have had a contentious history with ruling elites throughout the ages. Because of their potential to support or subvert existing orders, Robbins (2006) writes that, from the earliest recorded history of Western civilisation, rulers, wealthy elites and religious institutions have used, banned and regulated charitable organisations, associations and philanthropies to suit their vested interests and ideologies. Thus, the sector's history can be characterised as a history of power, conflict and accommodation among various interest groups and classes. However, except in a few publications, such as Marian Maddox's *God Under Howard* (2005), which explored the religious nonprofit sector and its relationship to government social policy, this darker aspect of the third sector appears to be neglected in most celebratory discussions. Hence commentators, such as Boddice (2009), P. Hall (2006), Moulaert and Ailenei (2005), and Robbins (2006), argue that it is important to trace its origins so as to understand fully the workings and dynamics of the modern third sector and its many organisational expressions in relation to other sectors or institutions of society. Among these are the household (kinship and family), private (market) and public (state) sectors, and culture-bearing institutions, such as religion and education (Lohmann, 1992; Lyons,

2007; Van Til, 1994). All, however, have succumbed to the dominance of neoliberalism and its correlate in the public sector, new public management (Lyons, 2007; Ridley-Duff & Bull, 2011). The next section tackles the cross-country comparison based on the criteria enumerated earlier in Table 2.1; the emergence of social enterprise; major conceptual approach or framework; legal and regulatory environment; scope and contribution to the economy; and challenges and critiques.

Cross-country comparison

European Union and UK

1. Emergence of social enterprise

European commentators usually frame the social enterprise discourse within the social economy label (Europe) or third sector label (UK) (Borzaga, 2004; Chaves & Monzón, 2007; Defourny, 2001). Here social enterprise became associated with the values and principles of the charitable and self-help groups that dominated the civil society sector (Chaves & Monzón, 2007; Defourny, 2001), hence the preponderance of friendly societies, co-operatives, charities, and mutual associations now included in the social economy. Following Etzioni (1973), the ‘social economy’ or ‘third sector’ generally came to be understood as the realm outside the private/market and public/state sectors when, in fact, the various sectors had always been closely intertwined. Some commentators go further back in citing charities and mutual associations founded by religious organisations in medieval times as the progenitor of the European social economy (Defourny & Develtere, 1999; Hudson, 2002 and Morgan, 2008 in Ridley-Duff & Bull, 2011). Other scholars trace its history to the rise of mutual-help associations during the Industrial Revolution in the 18th and 19th centuries (Boddice, 2009; Chaves & Monzón, 2007; Moulaert & Ailenei, 2005; Ridley-Duff & Bull, 2011). These were co-operatives, mutual provident societies and assistance groups that the disadvantaged working classes established to protect their families and to ameliorate the social and economic inequities that arose during the early stages of the Industrial Revolution. Workers’ co-operatives and mutual societies also formed in Italy, Spain and several other European countries. However, Chaves and Monzón (2007) write that it was in France that the associative movement was most widely embraced. Citing Gueslin (1987), they report that in 1847 France had 2,500 mutual assistance societies with an aggregate membership of 400,000 benefiting 1.6 million individuals (Gueslin, 1987, as cited in Chaves & Monzón, 2007).

Chaves and Monzón (2007) claim that the phenomenal growth of mutual associations and co-operatives caught the attention of liberal moral economists in the 19th century and, in the

intervening years between 1820 and 1860, a group of social economists, who believed in the primacy of ‘social peace’ rather than wealth or welfare, emerged in France. But, instead of being critical of *laissez-faire* economics, these economists were more concerned with tempering its effects through the ‘moralisation of individual behaviour’ (Chaves & Monzón, 2007, p. 14). Hence, they did not develop an alternative economic ideology.

This period also produced a few visionaries among influential industrialist and entrepreneurs, such as Robert Owen in Britain and Léon Harmel in France, who sought to soften the dehumanising impact of industrialisation by experimenting with communitarian projects (Boddice, 2009). Boddice (2009) writes that these early industrialists envisioned capital and labour to work harmoniously based on their personal vision and morality. As such, he considers them the ‘historical antecedents’ (p. 133) of modern-day social entrepreneurs. Although their communitarian experiments failed, their vision lived on among their followers. The most oft-cited example is the Rochdale Society of Equitable Pioneers, a British co-operative founded in 1844 by weavers and artisans, who were inspired by Owen’s ideas. Rochdale principles, such as ‘one-member, one-vote’, continue to guide the operation of co-operatives around the world (Chaves & Monzón, 2007; Defourny, 2001; Ridley-Duff & Bull, 2011). The growth of workers’ co-operatives and friendly societies also caught the attention of prominent 19th century thinkers like John Stuart Mill, a British philosopher/economist, and Léon Walras, a French economist, who championed the ‘economic and moral’ contributions of co-operatives and mutual associations and the democratic values they conveyed (Chaves & Monzón, 2007, p. 14). Although Mill did not use the label ‘social economy’ in his writings, for example in his *Political Economy* (Nathanson, 2004), Walras was more explicit in his expositions on his ‘*economie sociale*’ (Cirillo, 1980, 1984). Both, however, contributed in elevating the ‘social economy’ into mainstream economics and made it visible.

The relative visibility of the social economy, however, did not last long as it was marginalised by the ascendance of Keynesian economics during Western Europe’s post-World War II reconstruction. Keynesian economics emphasised the state, labour and the market as the main economic actors. In Eastern Europe and the Soviet bloc, the state became the sole economic agent (Chaves & Monzón, 2007). Although the third sector seemed to have vanished during the ensuing Cold War period, civil society organisations expanded their reach and scope of operation, benefiting citizens left out of the market and welfare state (Borzaga & Defourny, 2001; Chaves & Monzón, 2007). While spectacular economic growth was the norm, social exclusion and economic disenfranchisement also grew in the last two decades of the 20th century. In Italy, for example, a new form of organisation called ‘social co-operatives’ emerged in the 1970s to assist vulnerable groups being denied work opportunities (Borzaga, 2004). The Italian government passed two laws

in 1991 to recognise this new form of community-based association that combined voluntary work and economic activity. In other European countries, third sector organisations filled the gap left by the retreating welfare state by providing *inter alia* a range of social and personal care services to families with young children, the elderly and people with disabilities, and by assisting the long-term unemployed to gain new skills and find mainstream employment (Austrian Institute for SME Research, 2007; Borzaga & Defourny, 2001; Borzaga et al., 2008; Chaves & Monzón, 2007).

In contrast to the market and the state, the vibrance and resilience of civil society organisations soon became apparent to governments and social scientists alike (Chaves & Monzón, 2007; Defourny, 2001). The persistent imbalance in the distribution of wealth and social and economic benefits had many governments searching for solutions as early as the mid-1970s (Defourny, 2001; Kendall, 2000). The global interest that the emerging third sector discourse – with its incursions into civil society – began to generate in the 1990s led several Western governments to develop and integrate a new social economy approach into their development and public service programs (Etzioni, 2000). Catchy political slogans were coined to enlist broader public support (Salamon et al., 2003). During their ascendance to power, former UK Prime Minister Tony Blair (1997–2007) and former German Chancellor Gerhard Schröder (1998–2005) wrote a pamphlet titled *Europe: The Third Way/Die Neue Mitte* (1998) to breathe new life into the political ideology of European Labour and social democratic parties. In this manifesto Blair and Schroeder (1998) outlined their view of community and solidarity, the rights and responsibilities of individuals, and the importance of an activist state in reforming the welfare state and incentivising the market to encourage innovative entrepreneurs. Both were emphatic that the Third Way or New Centre approach ‘support a market economy, not a market society’ (Blair & Schroeder, 1998, p. 2). In a similar vein, former French Prime Minister Lionel Jospin (1997–2002) championed the ‘Yes to a market economy, no to a market society’ philosophy. Thus, in what appeared to be a bittersweet case of history repeating itself, civil society, now called the third sector, as a foil to the excesses of capitalism through the enhancement of community life and social solidarity, once again become the object of scientific and governmental scrutiny. This was not surprising, since European commentators believe that interest in civil society – now the locus of the social economy – ‘emerges’ and ‘re-emerges’ during periods of socioeconomic crisis and new forms of organisations arise to respond to the specific needs of affected groups (Moulaert & Ailenei, 2005, p. 2041). For example, the mutual associations organised by workers and craftsmen was a response to the dissolution of the guild system in the mid-19th century, while the intensification of agriculture towards the end of the century gave small farmers the impetus to form agricultural co-operatives and savings associations (Boyer, 1986, as cited in Moulaert & Ailenei, 2005). Hence, the creation of

worker integration social enterprises (WISE) and worker-owned co-operatives beginning in the 1980s may be seen as a modern-day response to long-term unemployment (Mellor et al., 1988, as cited in Moulaert & Ailenei, 2005). As Defourny (2001) claimed, social enterprises '*represent the new or renewed expression of civil society* against a background of economic crisis, the weakening of social bonds and difficulties of the welfare estate' (p. 1 emphasis added).

These initiatives generated enough impetus for European governments to begin to examine and find ways to harness the socioeconomic contribution of the third sector. In other words, the discourse of social economy brought with it valuing – or putting a price on and costing – the social contribution of civil society in economic terms. France was the first country to officially recognise the social economy when, in 1981, it created the Inter-Ministerial Delegation to the Social Economy. Between 1987 and 2006, 14 other European countries passed legislation in support of third sector organisations in the social economy (Chaves & Monzón, 2007, 2008). In 2006, the UK government enshrined the third sector with its establishment of the Office of the third sector (Ridley-Duff & Bull, 2011).

Following the US lead European scholarship on social enterprise and on the new social economy began in the 1990s by drawing on a corpus of literature on co-operatives and the public sector through the auspices of the long-established International Centre of Research and Information on the Public, Social and Co-operative Economy (CIRIEC). However, it is the French who are credited with re-introducing the concept of the 'social economy' in the 1970s (Monzón & Chaves, 2008). In the late 1990s European social economy scholars banded together under the EMES European Research Network and published the pan-European *Emergence of Social Enterprise* in 2001 (Defourny, 2001). This book synthesised various theories on the third sector and demonstrated the robustness of third sector organisations (TSOs) in 15 European countries. It also signalled the articulation of European theorising on the third sector and social economy markedly different from that of the global nonprofit sector theorising advanced by the Johns Hopkins Comparative Nonprofit Sector Project (JHCNSP), researchers in the USA. Thereafter, scholarly publications and policy papers ensued, as well as partnerships among social economy research networks, such as the CIRIEC, and practitioner networks, such as CEDAG (Comité Européen Des Associations D'intérêt Général) or the European Council for Non-profit Organisations and Social Economy Europe representing social economy organisations in the EU (Monzón & Chaves, 2008).

These research networks have been commissioned by the European Economic and Social Committee, a consultative body of the EU, to study the state of the social economy in European countries (see for example, Austrian Institute for SME Research, 2007; Borzaga et al., 2008; Chaves & Monzón, 2007). Similar to the JHCNSP, a number of international research projects led

by EMES and CIRIEC scholars, some in partnership with US commentators, were also launched to further explicate the state of the social economy in various parts of the world (Defourny & Develtere, 1999; Defourny & Kim, 2011; Kerlin, 2009; Osborne, 2008). Hence, in contradistinction with US commentators, they propagated the plural economy or tripolar approach in studying SEOs in different parts of the world. The next section discusses the major approaches used in the study of the third sector and social enterprises in the UK. The European conceptual frameworks on social economy and social enterprise employed in this study are discussed separately in Chapter 3.

2. Major conceptual approaches to social enterprise

There are several competing approaches to the study of the UK social economy (Ridley-Duff & Bull, 2011). One is the UK government's third sector framework that narrowly focuses on TSOs or SEOs that trade, which is aligned with the Third Way rhetoric of ex-prime minister Tony Blair. The other competing concept is 'civil society sector' or the traditional third sector which embraces all organisations that trace their *raison d'être* to the ideals of civil society (Edwards, 2004). This is exemplified by the National Council for Voluntary Organisations, the largest federation of UK voluntary organisations (National Council for Voluntary Organisations [NCVO], 2012d). Another competing concept which hews closer to grassroots social economy advocates, is John Pearce's 'three systems model' (2003). These concepts are discussed below.

The UK government defines the third sector as comprising only 'nongovernmental organisations that are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, co-operatives and mutuals' (HM Treasury/Cabinet Office, 2007, p. 5). Officially, a social enterprise is 'a business 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 maximise profit for shareholders and owners' (Department of Trade and Industry, 2002, p. 13). The Companies Act of 2006 (discussed in section 3. *Legal framework and regulatory environment*) mandates social enterprises to declare 50% of their profits to private owners and investors.

Birch and Whittam (2008) claim that the official definition of the third sector was a 'deliberate discursive attempt' (p. 445) to exclude other civil society organisations, such as advocacy groups, and suited the government's agenda of privatising public services. This has also made it easier for business interest groups, such as corporate philanthropists, to introduce concepts that borrow the language of civil society but are adapted to privilege the market (Cho, 2006;

Edwards, 2008; Lloyd, 2007). Just like in the USA and the EU, the ‘social entrepreneurship’ and ‘social entrepreneur’ concepts have found their way to the lexicon of the UK civil society sector. However, some UK academics see potentials of marrying civil society and business concepts in service of the social and environmental objectives of social enterprises (Leadbeater, 2007; Mair et al., 2006a; Nicholls, 2006c).

Although there is no agreed consensus yet on what ‘social entrepreneurship’ is, or what exactly are the traits and characteristics of a ‘social entrepreneur’, various definitions seem to converge on the following:

1. *On social entrepreneurship*: Social entrepreneurship is a process characterised by private business innovation, that focuses on achievement of a social mission that has not been addressed by the public, private or traditional organisations, without being constrained by lack of resources or organisational and societal challenges (Mair, 2010; Mair et al., 2006a; Nicholls, 2006b; Skoll Centre for Social Entrepreneurship, n.d.). Social entrepreneurship can be pursued in any type of organisation, be it in the public sector, market sector, or third sector (Leadbeater, 1997; Nicholls, 2006b). An important caveat is that social entrepreneurship does not always lead to, or pursues profit generation for the organisation. Although it may lead to independent income streams, its two main concerns remain the attainment of social impact and social innovation (Nicholls, 2006b). Thus, from this perspective, social enterprise is just one variant among several organisational forms in which social entrepreneurship can be applied.
2. *On the social entrepreneur*: Following the above definition of social entrepreneurship, a social entrepreneur is an innovative and dynamic leader who uses business principles and management practices in solving intractable social problems the market or state have failed to solve (Cho, 2006; Drayton, 2005; Lloyd, 2007; Nicholls, 2010b). He or she is not easily discouraged by a lack of resources but uses whatever financial and social capital is on hand, efficiently and effectively, to achieve the organisation’s social objectives (Leadbeater, 1997; Mair, 2010). Social entrepreneurs are believed to have a better chance of ‘success’ than traditional third sector organisations appealing to voluntary and charitable giving and social solidarity. ‘Success’ here is defined as being able to access funding from private philanthropic foundations or win government contracts to enable social entrepreneurs to scale up their operations and generate income through trading (Birch & Whittam, 2008). The idea of social enterprises led by heroic social entrepreneurs’ appeals to the UK government and private philanthropic foundations because social change is pursued within the confines of the market and does not disrupt the social order (Nicholls, 2010).

With the appropriation by government of the ‘third sector’ label, traditional third sector organisations, such as those belonging to the NCVO, have distanced themselves by calling their sector ‘civil society’. Unlike the exclusionary third sector framework of the UK government, the NCVO and its member organisations embrace all civil society organisations that can be classified as belonging to the traditional third sector, such as charities, advocacy NGOs, unregistered community associations, and others. The NCVO subscribe to Michael Edwards’ (2004) notion of civil society, which he elaborated as follows:

- (i) Civil society is characterised by associational life, meaning people form or join associations and organisations voluntarily and where decision-making is made through ‘dialogue, bargaining and persuasion instead of enforced compliance by governments or market incentives by firms’ (p. 20);
- (ii) Civil society reflects the ideal ‘good society’ and the values associated with it are practiced in the pursuit of social, economic and political justice;
- (iii) Civil society serves as a public sphere where the common good is negotiated through debate and deliberation by various members of society, who participate freely, democratically, and without fear of political or economic repercussions. The participation of various publics in a convivial public space in turn reinforces the values that characterise the good society.

Thus, a social enterprise viewed from Edwards’ (2004, 2008) perspective is not simply a business with a social mission and a source of limited profit distribution but also furthers the goals of civil society.

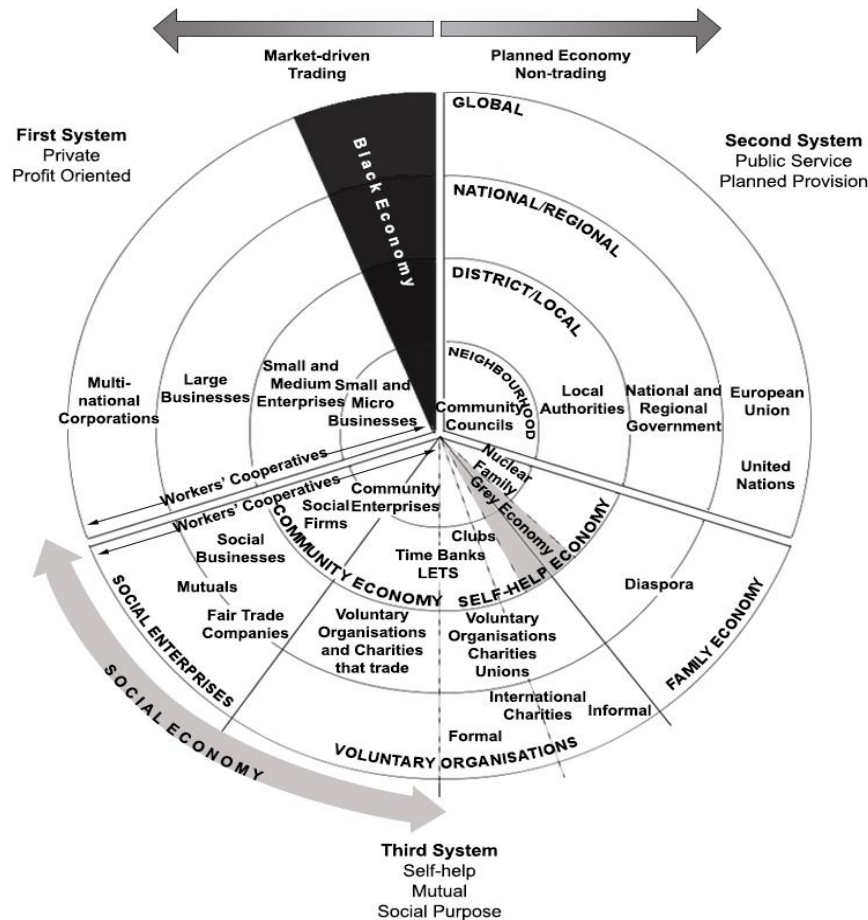
Pearce (2003) likewise characterises the organisations comprising his third system as being governed by a social ethos; they thus differs markedly from public and private sector organisations. As do other European authors, Pearce (2003) structures the economy into three systems or sectors. The first system comprises the market and is further subdivided into the formal and informal (black) economy. The second is the state, while the third comprises three sub-systems, including the *social economy*, *voluntary organisations*, and *family economy* (see Figure 2.1). Each system – or sector – is governed by its own logic: the first system by profit generation for private owners and stockholders, the second by a public service ethos and ‘planned provision’ through government functionaries and bureaucrats, and the third by a set of principles or values concerning the ‘common good’ practised by social actors outside the domains of the market and state. These values include *inter alia* care for human and natural resources, self-help, and subsidiarity, or limited profit distribution.

Although Pearce's (2003) three-system model is conceptually similar to the plural economy approach of other European commentators (e.g., Chaves & Monzón, 2007 and Evers & Laville, 2004), his differs significantly because it limits the social economy to third system organisations engaged in trading. In other European models, the social economy includes both trading (market-oriented) and non-trading (non-market-oriented) organisations. In Pearce's (2003) model, the *social economy sub-system* is basically the market-oriented social economy subsector encompassing social and community enterprises, co-operatives, voluntary organisations, and charities that trade. There is general agreement, however, that the varieties of labels and definitions surrounding social and community-based enterprises, and newer forms of social economy organisations are most confusing.

Pearce (2003) tries to differentiate *social enterprises* from *community enterprises* by limiting the latter to organisations with 'definite local, geographical base' and the former to 'include all those with a constituency which is not based on geography' (p. 29). He writes that community enterprises may be considered a subset of social enterprises that include *inter alia*, fair trade charities, workers' co-operatives, mutual societies, and newer forms of social businesses and community enterprises. Further, he differentiates large social economy organisations. On one side, big workers' co-operatives whose operations mimic for-profit corporations are classified in the first system but close to the boundary of the social economy. On the other side, large social economy organisations that remain true to the values of the third system are placed in the social economy sub-system but close to the boundary of the market system.

The *voluntary organisations sub-system* includes both trading and non-trading voluntary organisations and charities. It straddles the social economy sub-system through voluntary organisations and charities that trade. Non-trading voluntary organisations include time banks, local exchange trading systems (LETS), and unions. Time banks and LETS are systems of exchange where individuals exchange goods or services based on time (<http://www.timebanking.org/>) or equivalent service without the need for money (<http://www.letslinkuk.net/>). The *family economy sub-system* is the sphere of the household and livelihoods that depend on the generosity of their members who may be engaged in informal household production or who labour in other countries to increase the life chances of their families back home.

Figure 2.1: Pearce's three systems of the economy framework



Source: Pearce (2003)

The advantage of Pearce's (2003) model is that it shows the interrelated layers of social and economic life from the smallest unit to the largest, and the relationships across the three sectors. Thus, the sphere of action and geographic scope of the various organisations comprising each system is easily identifiable. Social enterprises, such as fair trade organisations, may be found from the global sphere down to community enterprises at the neighbourhood level. Furthermore, it includes the 'bads' (black and illegal markets) and the ambiguous (informal and underground economy) present in varying degrees in developed and developing economies. Thus, Pearce (2003) argues that the three systems model may be relevant in 'any town' or context. Further, he notes that, since TSOs adhere to social values or a social morality relating to the common good, they have a responsibility to the public to account for their activities and accomplishments. However, this accounting is not the same as simply assigning an economic value to the sector. Rather than monetisation, which funders and governments require, the social and economic impact of social economy organisations must be measured against the values to which they adhere. By so doing,

society is assured that the accomplishments indeed benefit the intended beneficiaries or community and the wider public and are not misappropriated for private or public sector gain. The next section discusses the legal framework and regulatory environment governing UK social enterprises and TSOs.

3. Legal framework and regulatory environment

The UK government is quite advanced among developed countries in enshrining its vision of a 'third sector' in its statutes and public sector policies. In 2006 the former UK labour government established a cabinet-level Office for the third sector (HM Treasury/Cabinet Office, 2007) that was later renamed the Office for Civil Society in 2010 under the Conservative-LibDem government coalition (Cabinet Office, n.d.). The UK labour government also passed the Companies Act of 2006 in which social enterprises could register as community interest companies (CICs), either as public companies limited by shares or companies limited by guarantees.

The CIC is touted as a UK 'brand' for social enterprises or businesses that trade for a social or environmental purpose (Department for Business Innovation and Skills, 2010, p. 19). CICs are mandated to earn more than 25% of their income from trading, not depend on donations and grants for more than 75% of their revenue, and distribute a maximum of 50% of their profits to owners or shareholders (Department for Business Innovation and Skills, 2011). Hence, unlike traditional charities that trade or engage in social enterprise, CICs allow owners and investors to receive profits from their investments. However, CICs are constrained by the 'asset lock' provision which ensures that resources remain in the community in case the social enterprise is dissolved. The provision calls for the transfer of assets and profits to another CIC or charity in the community (Office of the Regulator of Community Interest Companies, 2012). CICs differ as well from traditional voluntary charities that trade and other CSOs that enjoy tax incentives. Registered charities and community amateur sports clubs and their donors, for example, can claim tax benefits through the UK Gift Aid scheme but CICs cannot because of their status as social enterprises (HM Revenue and Customs, n.d.).

With the advent of the Big Society program of the Conservative-LibDem government coalition in 2010, the outsourcing of social services to the third and private sectors began in earnest (Cabinet Office, n.d.; Office for Civil Society, 2010). The government has created 'spin offs' in the form of workers' co-operatives known as public service mutuals (NCVO, 2013). These spin offs are managed by streamlined public service employees and endowed with public funds and assets enabling them to contract with government. Critiques fear that these new government-created

social economy organisations by might crowd out public contracts to traditional charities and voluntary organisations (see *Challenges and critiques*, pt. 5 below).

The Conservative-LibDem government has built on the previous government's civil society 'compact' and adopted new guides governing partnerships with contracting organisations (Office for Civil Society, 2010). On 31 January 2013, the statute Public Services (Social Value) Act 2012 came into force. The Social Value Act 2012 provides guidelines for the procurement of public services from the voluntary and private sectors to ensure the economic, social and environmental well-being of beneficiary communities. While on paper the Social Value Act 2012 protects the interest of beneficiary communities, in practice it seems price has become the main factor for awarding public contracts at the expense of small charities and voluntary care workers themselves (NCVO, Hedley & Joy, 2012; 2014a, 2014b; Social Enterprise UK, 2012). This is taken up again in the *Challenges and critiques* section (see pt.5 below). The next section demonstrates the scope and economic contributions of the UK civil society sector using the NCVO's estimates.

4. Scope and contribution to the economy

The NCVO (2012b) estimates the economic contributions of the civil society by using the plural economy approach to the social economy or third sector adopted by Evers and Laville (2004) from Pestoff's (1992) original third sector approach. This framework, which was also employed in the study to profile the Philippine social economy, is discussed fully in Chapter 3. Briefly, the third sector approach places the traditional third or civil society sector in the middle of the three poles of the economy, namely, the public sector, community/household, and private market poles. However, CSOs that straddle two poles or are situated near the boundary of another pole are considered hybrid organisations because they combine the characteristics and ethos associated with each pole. Examples of these hybrids are social enterprises, co-operatives, trade unions, and community associations. The NCVO's map of the UK civil society universe in 2010 showed that there were more than 900,000 civil society organisations with combined net assets of GBP229.3 billion or AUD385.9 billion (GBP1:AUD1.683 in 2010 average) (NCVO, 2012c). Of the total number, two-thirds comprised unincorporated organisations (see Table 2.2).

Table 2.2: Scope and economic contribution of the UK civil society (2009–2010)

Type of social economy organisation	Number	Income (GBP mn)	Expenditure (GBP mn)	Net Assets (GBP mn)	Paid staff
Total size of civil society (including estimates of missing values). Of the total, 66.7% are unincorporated CSOs)	900,000	170,700	165,000	229,300	2,041,000
a. Public sector organisations	0.02%	15.64%	15.70%	11.47%	18.98%
Universities	0.02%	15.64%	15.70%	11.47%	18.98%
Academies	na	na	na	na	na
Lottery distributors	na	na	na	na	na
NHS (national health service) charities	na	na	na	na	na
<i>Public sector organisations near the boundary of the private sector sphere</i>	na	na	na	na	na
Co-operative schools	na	na	na	na	na
GP (government/public) mutuals	na	na	na	na	na
Leisure trusts	na	na	na	na	na
b. Hybrid CSOs inside the intersection of the three sectors	22.31%	39.34%	39.52%	73.05%	53.03%
General charities	18.20%	21.50%	22.00%	39.34%	37.48%
Companies limited by guarantee	2.56%	3.51%	3.58%	0.74%	1.96%
Community interest companies	0.55%	0.53%	0.50%	na	1.47%
Excepted charities	0.44%	0.23%	0.24%	na	na
Independent schools	0.30%	3.98%	3.76%	4.06%	2.89%
Housing associations	0.19%	8.03%	7.88%	27.65%	8.35%
Credit unions	0.05%	0.02%	0.02%	na	0.05%
Trade associations and professional bodies	0.03%	1.29%	1.33%	0.83%	0.83%
Common investment funds	0.01%	0.25%	0.21%	0.44%	na
c. Hybrid CSOs straddling the private sector	0.41%	38.49%	37.76%	7.76%	17.06%
Co-operatives	0.37%	14.18%	14.36%	3.40%	7.79%
Employee owned businesses	0.03%	17.57%	16.73%	4.36%	6.37%
Financial mutuals and friendly societies	0.01%	4.57%	4.67%	na	0.84%
Building societies	0.01%	2.17%	2.00%	na	2.06%
d. Hybrid CSOs straddling the community sector	1.28%	2.89%	3.00%	6.56%	2.76%
Faith groups	1.21%	2.17%	2.18%	6.19%	2.14%
Political parties	0.05%	0.08%	0.09%	0.02%	0.03%
Trade unions	0.02%	0.64%	0.73%	0.35%	0.59%
e. CSOs in the community sector	16.82%	3.33%	3.36%	0.74%	7.76%
Sports clubs	15.89%	2.99%	3.03%	na	7.03%
Clubs and societies	0.73%	0.16%	0.16%	na	0.56%
Benevolent societies	0.18%	0.18%	0.17%	0.74%	0.16%
Football/Rugby supporter trusts	0.02%	0.01%	0.01%	na	0.01%
<i>Duplications</i>	-63,100	-700	-700	0	-20,100
<i>Total size of civil society (excluding estimated numbers)</i>	<i>100%</i>	<i>100%</i>	<i>61%</i>	<i>92%</i>	<i>100%</i>
Total size of civil society (including estimates of missing values)	100%	100%	100%	100%	100%

Source of raw data: NCVO (2012b)

Among the hybrid CSOs more than a quarter were located inside the intersection of the public sector, community, and market. Their combined assets, in the form of real estate, constituted almost three quarters of their total assets. They were also the biggest employers. The hybrid CSOs or social enterprises that straddled the sphere of the private sector were comparatively few in number but accounted for a significant contribution to the economy and, as with CSOs, were located at the intersection of the three sectors in terms of income (38.5% versus 39.3% for CSOs) and expenditure (37.8% versus 39.5%). Hybrid CSOs straddling the community sector were also few in number (1.3% of the total) but the CSOs in the community sector represented a big chunk with 16.8% of the total.

The NCVO estimates the total number of voluntary organisations at 180,000 or 20% of the total number of CSOs (NCVO, 2012b). Of these voluntary organisations, 54% were small in size. The voluntary sector's main sources of funding were individuals and government bodies. As of the period covering 2009–2010, income generated through gifts and sales amounted to GBP14.3 billion (AUD24.1bn), while income through public contracts and grants amounted to GBP13.9 billion (AUD23.4bn) or 38%. In 2004–2005, the share of income from statutory bodies was 32%. However, despite the yearly growth of statutory income, *the voluntary sector accounted for only two per cent of total government expenditure on public services*. NCVO estimated that in 2009–2010 the sector contributed GBP11.7 billion (AUD19.7bn) or 0.8% to the UK gross value added (GVA). This approximated other sectors' contribution, such as agriculture's GBP8.3 billion (AUD14.0bn). Although the number of volunteers remained high at 19.8 million individuals, the proportion of the population that volunteered had seen a gradual decline since 2005 (Department for Communities and Local Government, 2011) (see Table 2.3).

Table 2.3: UK voluntary sector (2009–2010)

Total income	GBP36.7mn or AUD61.7bn
Share of income from gifts and sales to total income	38% or GBP14.3bn (AUD24.067bn)
Share of income from statutory bodies to total income	32% or GBP13.9bn (AUD23.394bn)
Gross value added to the economy	GBP11.7bn (AUD19.7bn) or 0.8%
Number of employed staff	765,000
Number of volunteers	19.8mn individuals
Number of full time equivalents:	1.3mn full-time workers

Source of data: NCVO (2012b)
Note: *GBP1:AUD1.683

5. Challenges and critiques

Erosion of UK 'civil society'

Despite the size and scope of UK civil society, social enterprises and CSOs that trade fell far short of meeting the gap caused by the failures of the state and market. After more than a decade of promoting social enterprise and social entrepreneurship (Leadbeater, 2007), government rhetoric had not matched the reality (Allinson, Braidford, Houston, Robinson, & Stone, 2011; Parkinson & Howorth, 2008). A study commissioned by the UK government showed that public perception of social enterprises remained low (Allinson et al., 2011). Traditional civil society organisations were not transforming themselves into social enterprises to provide innovative solutions to social and economic problems and the majority of voluntary organisations were not getting on board the Big Society agenda of marketisation for several reasons:

First, many were not equipped to enter into contracts with the public sector and those that did were struggling to convert their organisations to viable and sustainable social enterprises. Only traditional large charities and medium-sized voluntary organisations were contracting with public authorities and even they were not able to benefit fully from commissioned services (IpsosMori, 2011; NCVO, 2012e).

Secondly, the public sector was a major source of income for many of the contracting voluntary sector organisations. The number of closures of voluntary organisations whose contracts with statutory bodies were not renewed, or which were terminated to make way for private sector contracting, and the vociferous opposition to the government's proposed tax relief cap on private donations meant there could be no independent source of income for voluntary organisations (Allinson et al., 2011; NCVO, 2012a). Hence, without public grants and contracts, many small charities had been forced to close or to reduce the services provided. For example, the Big Squeeze survey in 2011 done by the London Voluntary Service Council showed that 51% of charities based in London closed or reduced their services, while in 2012, 41% closed their services (London Voluntary Service Council, 2012). Furthermore, 54% of the London charities surveyed used their reserve funds to finance their operations.

Thirdly, and most importantly, there was an insurmountable difference in the social and cultural values of the third sector and the economic drivers pushing the marketisation of public services (Chapman, Brown, & Crow, 2008; Parkinson & Howorth, 2008). Community-based organisations had 'low affinity' with the heroic social entrepreneurs depicted by high-profile social enterprise networks and foundations (Parkinson & Howorth, 2008). Although they exhibited leadership and entrepreneurialism (Di Domenico, Haugh, & Tracey, 2010), their motivation for so

doing was anchored by a social morality rather than standards of business efficiency (Amin, 2009a; Parkinson & Howorth, 2008; Pearce, 2009).

Although some writers celebrate social innovation, Moulaert and Ailenei (2005) argue that it must go beyond the 're-introduction of social justice into economic production and allocation systems' (p. 2037); the narrower concept of social innovation refers to the introduction of new forms of organisations, creative use of resources, or technological innovation in production processes as a way to maximise social impact (Leadbeater, 2007). For Moulaert and Ailenei (2005) 'social innovation means innovation in social relations as well as new modes of satisfying needs' (p. 2050). In other words, it means tackling social structures and cultural biases that perpetuate social exclusion and inequalities.

While most UK social enterprises continued to engage in activities that accorded with their social mission, social ventures and social investors were at the same time colonising public welfare commissioning (Civil Exchange, 2012; Panel on the Independence of the Voluntary Sector [PIVS], 2012). PIVS (2013) expressed concern that some large multi-national corporations with deep pockets and no direct accountability to the British public had won public sector contracts by sub-contracting to voluntary organisations too small to meet commissioning requirements. As sub-contractors for private corporations, the voluntary sector was increasingly becoming the public service delivery arm at the lower end of the value chain, putting further pressure on the identity of the voluntary sector. Thus, many civil society leaders, who initially supported the Big Society, were now questioning its intentions (Butler, 2011; Hetherington, 2013; PIVS, 2012; Youde, 2013).

Despite various State-Civil Society Compacts, UK civil society appeared weak in influencing and implementing Big Society policies (Charities Aid Foundation, 2012; Civil Exchange, 2012; PIVS, 2012). The PIVS (2012) showed that competition for survival was eroding voluntary sector 'independence, distinctness, and ability to speak out from experience' (p. 3). Since it came out with its annual report assessing the independence of the voluntary sector in 2012, the PIVS has noted that its 'barometer of independence' or the values of civil society necessary for a healthy democracy were being undermined and in certain cases attacked by politicians and public authorities over the years (PIVS, 2013, 2014). The PIVS (2012) 'barometer of independence' includes 'independence of purpose', 'independence of voice', and 'independence of action'. To illustrate, to protect their contracts and to ensure that the most disadvantaged sectors they serve continue to enjoy their services, some voluntary organisations were exercising self-censorship and not criticising government policies and regulations. Independence of voice was being threatened as well with government putting pressure on voluntary organisations to allow public authority representation in their boards. Furthermore, charities advocating for greater state regulation and

increased government funding were being branded ‘fake charities’ by cabinet-level departments (PIVS, 2014, p. 6).

Another challenge to UK civil society was the ‘charitisation’ and ‘mutualisation’ of the public sector (NCVO, 2013). Public trusts and endowments for retrenched public servants constituted start-up capital for the formation of workers’ co-operatives and community interest companies, transforming them into some of the UK’s largest charities. Public sector bias towards large private sector corporations backed by powerful social investments and the social ventures lobby seemed to further weaken civil society. With public contracts increasingly defined by market values of efficiency, price, and economies of scale (Social Enterprise UK, 2012), rather than the vaunted ‘social value’ enshrined in the Public Services (Social Value) Act 2012, the financialisation and privatisation of the voluntary subsector of civil society (Charities Aid Foundation, 2012; Heaney, 2010) appeared to be on track. The next section discusses the case of the USA.

USA

1. Emergence of social enterprise

In the USA, the social enterprise discourse is framed within the North American concept of ‘nonprofit sector’. The ‘nonprofit’ label refers to the US Internal Revenue Code Section 501(c)(3) that prohibits the distribution of profit to ‘owners’ of nonprofit organisations identified in the tax code (Hansmann, 1980; United States Internal Revenue Service, n.d.). Thus, unlike the European concept of social economy, the US nonprofit sector excludes co-operatives, credit unions and mutual associations that distribute limited profits to their members. Kerlin (2006) claims that the US nonprofit sector, in spite of its nondistribution constraint, is broader than its European counterpart. However, this is not the view of some US writers who argue that the ‘invention of the nonprofit sector’ (P. Hall, 1992, p. 50) in the 1970s through this tax code significantly reduced the US nonprofit universe (Grønbjerg, Liu, & Pollak, 2010; D. H. Smith, 1997). They point out that, since various legal provisions exempt small organisations from registering in the IRS or in state laws for nonprofit organisations, the nonprofit sector framework does not capture all forms of organisations. P. Hall (1992, 2006) writes that researchers affiliated with Yale University’s PONPO laid the groundwork for limiting the scope of the US nonprofit sector to organisations registered in this tax code. P. Hall (1992, 2006) claims that elite interests represented by charities and large private foundations was behind the effort to distinguish a ‘third’ sector in order to shield it from stringent government regulation and public criticism and, in a classic liberal sense, keep it private

and free of government interference bearing in mind these policy initiatives were encroaching into the previously private spaces of civil society (Habermas, 2007a, 2007b).

Although the modern nonprofit sector may have a relatively short history for some commentators (Alter, 2000; Kerlin, 2006), other US sociologists and historians trace its origins to English notions of charity and voluntary association dating back to the founding of the American nation (Bellah et al., 2008; P. Hall, 1992, 2006; Hammack, 2002; Lohmann, 2005). Thus the values it espouses are closely entwined with larger sociocultural, economic and political narratives. These values include ‘utilitarian individualism’, ‘expressive individualism’ and ‘distrust of authority’ that Bellah et al. (pp. 32-35) elucidate in their classic account of the American character. While these values may seem paradoxical to Americans’ propensity to form associations, as Tocqueville had written in 1835, P. Hall (1992, 2006) details how they played out among competing interest groups and political and religious elites and how these conflicts were resolved, albeit precariously, through government fiat and the law. Thus, the nonprofit approach, through legal provision, may be seen as another precarious attempt to obscure the dynamics of power and wealth between large private foundations and big business philanthropies, on the one hand, and their beneficiary groups, on the other (P. Hall, 2006; S. N. Katz, 2005). Additionally, the nondistribution constraint appeals to American values of individualism (Bellah et al., 2008; Pozen, 2008) and dovetails neatly with classical economic philosophy (Defourny & Nyssens, 2010; Lohmann, 2005).

P. Hall (2006) and Hammack (2001) write that the ascendancy of modern nonprofits began in the 1960s, when contracting for human-service delivery with government agencies expanded. Among others, two major factors accounted for this. First, the flourishing of nonprofit organisations that sprang from various social movements, such as the civil rights and women’s liberation movements (P. Hall, 2006; Hammack, 2001). The second major factor involved the role of the US government itself in society. Despite the ideological differences between the Democrats and Republicans, P. Hall (2006) demonstrates that the US federal government’s attitude towards welfare provision since the mid-1940s has been ‘devolutionary’ and ‘privatising’ rather than ‘centralising’ and ‘collectivist’ (pp. 50–51). According to P. Hall and Burke (in P. Hall, 2006), this is evidenced in the growth of voluntary associations and nonprofit organisations and by the amount of federal government subsidies they received. As an example, the number of nonprofits jumped from 93,458 in 1946 to 1,188,510 in 1996, while subsidies increased more than five times from USD30 billion in 1974 to almost USD160 billion in 1994. The decline in the number of staff employed by federal government agencies and the rise in the number of employees in state governments and the nonprofit sector similarly attest this finding (P. Hall, 2006). Kerlin and Pollack’s (2011) study of nonprofits registered in terms of IRS Section 501(c)(3) from 1982 to

2002 in a way supports P. Hall and Burke's findings (cited in P. Hall, 2006). Kerlin and Pollack (2011) argue that the exponential increase in the number of nonprofits might have been the reason for the turn to income-generating activities. According to them, private and government funding has also been increasing but the large number of organisations competing for available funds and the rising demand for social services might have stretched funding capacities. Hence, nonprofits turned to income-earning activities to fill the funding gap.

Although the Yale PONPO was the first systematic research project to study the US nonprofit sector, in the 1960s scholars from other social disciplines were already conducting their own studies on the voluntary sector, as it was known then (D. H. Smith, 2003). In 1971, professor of sociology at the Boston College, David Horton Smith and colleagues, founded the Association of Voluntary Action Scholars (AVAS), the first interdisciplinary association to study the voluntary sector. With a growing body of research in nonprofit organisations engaged in income-generating activities, in 1989, AVAS retitled its publication *Journal of Voluntary Action Research (JVAR)*, the *Nonprofit and Voluntary Sector Quarterly* (D. H. Smith, 2003). In 1991, AVAS changed its name to the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA). The broader themes that resulted in the change appeared to have been accompanied by academic squabbling between two contending schools of thought: one that located nonprofit organisations in the voluntary sector and another that located them in the 'industrial model' of the Yale PONPO (Van Til, 1993, p. 202).

Other industry groups were also founded in the 1970s, including the Independent Sector (IS), an influential association of large charities and private foundations promoting the concept of a 'third sector,' 'independent sector' or 'nonprofit sector' in the USA (P. Hall, 2006; Powell & Steinberg, 2006; D. H. Smith, 2003). Yale PONPO, ARNOVA and IS researchers contributed to the first generation of academic theorising on the nonprofit sector, including the three failures theory by Weisbrod (1975), Hansmann's (1980) nondistribution constraint, Young's (1986) theory on nonprofit entrepreneurship (in Rose-Ackerman, 1986); Lohman's (1992a) theory of the commons; and Hall's (1992) theory of the invention of the nonprofit sector.

In 1991, the Yale PONPO was followed by an even bigger research project, this time, international in scope. With funding from IS member foundations, the Johns Hopkins University launched the JHCNSP to map the nonprofit sector in 28 countries (Salamon et al., 1999). With over 150 international researchers, the project resulted in a number of major publications and gave rise to other international research initiatives and publications. Both the United Nations (UN) and International Labour Organisation (ILO) adopted the framework of the Johns Hopkins nonprofit sector approach to generate standardised data on the voluntary and nonprofit sectors of the world's

economies. The *UN Handbook on Nonprofit Institutions in the System of National Account* was published in 2003, while the *ILO Manual on the Measurement of Volunteer Work* was published in 2011. Thus the project of internationalisation (Salamon, 2010) and ‘valorisation’ (Martins, 2007; Moulaert & Ailenei, 2005) of enterprises engaged in business with a social mission appeared to have been achieved.

The global interest engendered by the JHCNSP study on nonprofits and other major research endeavours seemed to have led to the mainstreaming of nonprofit studies in US business and social science schools to supply future managers to the nonprofit industry. By 2006, 16 major universities had either a centre for social entrepreneurship or were teaching courses on social entrepreneurship (Nicholls, 2006a), while 47 universities had either an in-house nonprofit centre or program in social science departments (Nonprofit Academic Centres Council [NACC] website). The NACC further underscores the growing importance of the nonprofit education sector by citing 255 colleges and universities that offer one subject on nonprofit management and 157 schools that offer one or several courses in a graduate degree program (NACC website).

2. Major conceptual approaches to social enterprise

As mentioned earlier, the ‘social enterprise’ discourse is framed within the US nonprofit sector approach. Similar to the UK context, two other related labels or concepts, each with its own history and theorising, accompany its discussions. These are ‘social entrepreneurship’ and ‘social entrepreneur’. Before delving into these, however, the US nonprofit sector approach is discussed first. As already stated, the ‘nonprofit’ label refers to the US Internal Revenue Code Section 501(c)(3) that prohibits the distribution of profit to ‘owners’ of nonprofit organisations identified in the tax code (Hansmann, 1980; United States Internal Revenue Service, n.d.). The code includes any nonprofit distributing tax-exempt charitable, religious, educational, scientific, sporting and literary organisations, such as the PEN American Centre or Authors Guild. From this simple definition, the JHCNSP researchers led by Salamon (1998) developed a structural-operational definition that they believe can be applied universally not only in the USA but in other countries as well.

Table 2.4 shows this structural-operational definition applied to the nonprofit sector: the first column represents the original definition employed in studying the nonprofit sector of seven developed countries (Salamon & Anheier, 1998), while the second represents variations to accommodate the social and political realities of 28 developing countries (Salamon et al., 2003), thus raising questions as to claims to universal application. Among others, its proponents (Salamon, 2010) claim that the definition is broad enough to cover formal and nonformal, i.e., not legally

registered, organisations and all legal types of nonprofit-distributing organisations. Further, it transcends other SE definitions that privilege social mission as a defining criterion.

Table 2.4: Structural-operational definition of the US nonprofit sector approach

Characteristics of NPOs	Original structural-operational definition	Variation of structural-operational definition
Formal organisations	Institutionalised to some extent	There is some structure and regularity to organisations' operations. They may be legally registered or not.
Private	Institutionally separate from government	They may receive government support but are not part of the public sector.
Nonprofit distributing	Do not return profits to owners or directors	They may trade but profits are not distributed to directors, stockholders or managers.
Self-governing	Equipped to control their own activities	They have their own governance structure that is independent from the public or private sectors.
Voluntary	Involve some degree of voluntary participation	Membership is open and voluntary.

Adapted from Salamon and Anheier (1998, p. 216) and Salamon et al. (2003, pp. 7-8)

Two UN bodies (UNDP and ILO) have adopted the Johns Hopkins nonprofit sector framework for their global nonprofit institutions (NPIs). The UN claims that the framework approximates their 'working definition' of NPIs more than the social economy or third sector approach (United Nations, 2003). Although UNDP Europe (2008) adopted the EMES social economy framework for emerging European economies, the 2003 UN NPI Handbook is being promoted for adoption across UN-member countries. Because of this, the US nonprofit sector approach is discussed in this section together with the UN NPI framework. However, despite the UN's adoption of the framework, each country has its own legal mandate and regulatory environment governing third sector organisations (as discussed under *Legal framework and regulatory environment*). Hence, universal applicability remains challenging. The UN (2003) classified nonprofit sector organisations in terms of 12 social and economic activities (see Table 2.5).

The main objective of the US nonprofit sector approach, as intended by its proponents, is to measure and highlight the sector's economic contribution by making it visible in the national income accounts (Salamon, 2010). Likewise, the UN (2003) seeks to place a monetary value on the activities and labour (paid and voluntary contributions) of individuals in terms of a standard economic accounting format regardless of the social mission of the organisation. However, policy pronouncements from various governments and international development agencies seem to point towards normalising the global nonprofit sector for public sector control (Charities Aid Foundation, 2012; European Commission, 2010a) and financialisation (Asian Development Bank, 2010; European Economic and Social Committee, 2011a; J.P. Morgan, 2010; Travis, 2010). Although

the US nonprofit sector approach excludes co-operatives and mutual associations in terms of the limited profit distribution principle, the UN classification includes them under *Group 6: Development and housing*. This category comprises *inter alia* social enterprises, co-operatives, and credit and savings associations thereby muddling the distinction between nonprofit distribution and limited profit distribution. As well, putting ‘social enterprises’ as a specific type of organisation under Group 6 appears to dovetail with global investment banks’ interest in exploiting the low-cost housing sector in emerging markets, such as India and Brazil, through ‘social impact’ investments (J.P. Morgan, 2010, p. 5).

Table 2.5: UN classification of nonprofit organisations based on social and economic activities

Classification	Examples of organisations
Group 1: Culture and recreation	Includes media and communications organisations, visual and performing arts groups, historical, literary and humanistic societies, museums, zoos and aquariums, sports clubs and other recreation and social clubs, e.g., Rotary Club and Kiwanis.
Group 2: Education and research	Includes primary and secondary schools, colleges and universities, vocational/technical schools, institutions providing adult and continuing education and research institutes.
Group 3: Health	Includes hospitals and rehabilitation centres, nursing homes, mental health and crisis intervention institutes and other health services organisations.
Group 4: Social services	Includes organisations that provide child welfare, child services and day care, youth services and youth welfare such as YMCA, Girl Scouts, Boy Scouts, family services agencies and shelters, centres for the handicapped, organisations that serve the elderly, self-help and other personal social services groups, emergency and relief organisations and groups that provide income support and maintenance, e.g., food banks, clothing distribution centres.
Group 5: Environment	Includes environmental groups, animal protection advocacy groups and animal protection and welfare services.
Group 6: Development and housing	Includes community and neighbourhood organisations working for economic, social and community development such as social enterprises, credit and savings associations, co-operatives, irrigators’ associations, housing associations and employment and training institutes.
Group 7: Law, advocacy and politics	Includes civic and advocacy organisations, organisations that provide law and legal services, and political organisations and parties.
Group 8: Philanthropic intermediaries and voluntarism promotion	Includes grant-making foundations, philanthropic intermediaries and organisations that support voluntarism and fund-raising organisations including lotteries.
Group 9: International	Includes organisations and associations that promote international exchange, friendship and cultural programs, development assistance associations, international disaster and relief organisations and international human rights and peace organisations.
Group 10: Religion	Includes religious congregations and associations.
Group 11: Unions, business and professional associations	Includes business associations, professional associations, and labour unions.
Group 12: Not elsewhere classified	

Source: United Nations, 2003, pp. 17-20

While the social enterprise discourse is a 'subuniverse' of the US nonprofit sector (Young, 2012, p. 20), definitions and practice vary among its supporters and proponents who are differentiated into business and social science academics; SE practitioners; and foundations and philanthropists (Kerlin & Gagnair, 2009; Young, 2012). While business academics and SE practitioners for years have differing concepts, Kerlin and Gagnair (2009) claim that the gap has been narrowing by citing leading thinkers from both fields. On one hand, Dennis Young, an academic, defines social enterprise as 'an organisation or venture that achieves its primary social or environmental mission using business methods' (Young, 2008, p. 23). On the other hand, Kim Alter, a leading social enterprise practitioner and writer, defines social enterprise as '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' (Alter, 2006b, p. 5). Alter writes that social enterprises can be found within a continuum straddling traditional nonprofit organisations and traditional for-profit corporations. Thus, social enterprises can be various shades of hybrids organised to create social as well as economic value (Alter, 2006b). For its part, the Social Enterprise Alliance (SEA), a membership organisation of US nonprofits and for-profit enterprises with a social mission, defines social enterprises as 'businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas' (SEA website). As well, the SEA labels the social enterprise subsector a 'social enterprise industry' to distance itself from the traditional concept of the nonprofit sector.

The leading American scholar of 'social entrepreneurship' discourse is J. Gregory Dees whose concept of social entrepreneurship is the most cited one. Dees (1998) defines social entrepreneurship through the manner in which social entrepreneurs act as social change agents. He writes that through the following actions they practice social entrepreneurship:

- 'Adopting a mission to create and sustain social value (not just private value),
- Recognising and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting heightened accountability to the constituencies served and for the outcomes created' (p.4).

Thus, similar to Leadbeater (1997), Dees' concept of 'social entrepreneurship' can be practiced by traditional nonprofits as well as by newer forms of nonprofit organisations pursuing earned income

streams. William Drayton (2005), another well-cited practitioner, also adheres to the concept of social entrepreneur as indefatigable change agent who does not rest until his vision of a just society becomes reality. Drayton (2005) writes:

‘The job of a social entrepreneur is to recognize when a part of society is not working and to solve the problem by changing the system, spreading solutions, and persuading entire societies to take new leaps . . . Identifying and solving large-scale social problems requires social entrepreneurs because only entrepreneurs have the committed vision and inexhaustible determination to persist until they have transformed an entire system . . . Social entrepreneurs can only come to rest when their vision has become the new pattern all across society’ (pp. 9-10).

Other commentators support the social entrepreneurs as heroic individual metaphor (Bornstein, 2004; Bornstein & Davis, 2010; Davis, 2002; Dees & Economy, 2001), which seems to cohere with the classic account of the American character sketched by Bellah et al. (2008).

From this discussion, though the terms ‘social enterprise’, ‘social entrepreneurship’, and ‘social entrepreneur’ might seem related, they are far from congruent (Young, 2012). Although the ‘owners’ and personnel of social enterprises might more consciously practise social entrepreneurship and manifest the desirable traits of social entrepreneurs, this does not necessarily mean their counterparts in nonprofit organisations who do not seek this identify are any less entrepreneurial. Similarly, social change actors involved in political advocacy organisations might not call themselves social entrepreneurs even though they or their organisations exhibit the traits and characteristics celebrated by their proponents. The next section discusses the legal framework and regulatory environment in the USA.

3. Legal framework and regulatory environment

Some states have enacted new laws that allow nonprofits to incorporate as limited liability companies (Kerlin & Gagnair, 2009). Otherwise, except for the federal law regulating the nonprofit sector through the IRS Tax Code Section 501(c) (Kerlin, 2006), the USA does not have any other law that addresses the specific concerns of its nonprofit sector. But, the government does support social enterprises through ‘set-aside funds’ (Kerlin, 2006, p. 255). The tax code Section 501(c)(3) spells out the broad social objectives qualifying for tax exemption, such as charitable, religious and educational activities. Legally, being ‘charitable’ means:

relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighbourhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency (United States Internal Revenue Service, n.d.)

Lohman (1992) claims that the US third sector can be captured in the whole tax code section 501(c) and related sections 501(d to q), 521 and 527. Indeed, the US IRS (2011) reference chart for organisations that enjoy certain tax-exemptions other than those registered in Section 501(c)(3) shows an extensive class of third sector organisations (see Table 2.6) that are similar to the NCVO's classification of civil society organisations in Table 2.2 (p. 42). The US IRS classification include *inter alia* civic leagues, social welfare organisations, social and recreational clubs, fraternal beneficiary societies and associations, state-chartered credit unions, mutual insurance companies or associations, co-operatives and other types of social economy organisations. Thus, looking beyond Section 501(c)(3), some US academics have discovered a lot of 'grey/dark matter' in the US nonprofit universe (Grønbjerg et al., 2010; D. H. Smith, 1997).

4. Scope and contribution to the economy

As mentioned earlier, commentators believe the US nonprofit universe is bigger than the known universe of registered and nonprofits reporting annually to the IRS, because many smaller neighbourhood and self-help organisations are exempted from registering or reporting if they do not meet IRS or state government requirements (Boris & Steuerle, 2006; Grønbjerg et al., 2010; D. H. Smith, 1997). For example, the IRS requires nonprofits to register only if they earn annual gross revenues of more than USD5,000 and to file annual tax reports if they generate more than USD25,000 gross receipts during a given year. In 2010, the threshold for annual gross receipts was further increased to USD50,000. Religious congregations and organisations, which are given automatic tax deductions, are also not required to register or report, although some do (Boris & Steuerle, 2006). While formal nonprofits are captured in the US economic census and surveys, they are subsumed in industry classifications which constrain their identification. Thus, there can be many slippages in estimating the social and economic contributions of the US nonprofit sector even though data are compiled from various sources (Boris & Steuerle, 2006). Although some researchers and research centres, such as the Urban Institute, are doing this, the major focus

remains on nonprofits reporting under 501(c)(3) because the data reported allow for time-series analysis.

Urban Institute researchers estimated that the number of US nonprofits was 2.3 million in 2012 (Roeger, Blackwood, & Pettijohn, 2012). Of this figure, 70% were registered with the IRS. Compared with their 2009 estimate, the total number of nonprofits in 2012 was up by 60.8% from the 1.43 million registered in 2009 (Roeger et al., 2011). Measured against the US population, there was one nonprofit for every 175 Americans in 2012. While these are certainly impressive figures, Boris and Steuerle (2006) caution that the number of registered nonprofits actually comprised a small percentage of all formal organisations in the USA. In 1998, Weitzman et al. (cited in Boris & Steuerle, 2006) estimated that the 1.6 million nonprofits in 1998 comprised only 5.9% of the 27.7 million registered formal organisations during that year. Following their lead, the 2.3 million nonprofits in 2012 would comprise only 8% of the number of establishments (29.5mn) surveyed by the US Census Bureau in 2010 or, to be more exact, 8.5% of market sector organisations (27.1mn) in 2007.

In terms of contribution to the US GDP, the nonprofit sector accounted for 5.5% of the GDP in 2010 contributing USD804.8 billion (Roeger et al., 2012). Its share in the GDP would be higher if the value of volunteer labour estimated at USD283.84 billion were included. In 2000, the sector's contribution was 4.2%, though including the value of volunteer work increased its share to 6.7% (Boris & Steuerle, 2006).

As in previous years, large nonprofits (those with expenses of USD10mn or more) that comprise a tiny minority (4%) of all nonprofit organisations had the biggest share (85%) of spending in 2010 (Boris & Steuerle, 2006; Roeger et al., 2011). However, the smallest nonprofits (with spending less than USD100,000) comprised 45.3% of all nonprofits (Roeger et al., 2012). Despite the perceived dynamism of US social enterprises, the share in spending (0.5%) of the smallest nonprofits in 2010 had actually declined from the 2000 share of 0.6% (Boris & Steuerle, 2006). And, as in previous years, the public sector remained the major source of income belying the capacity of the nonprofits to generate income outside public sector payments, individual grants and corporate donations.

Table 2.6: Tax-exempt organisations in the US IRS (2011)

Tax Code Section	Type of tax-exempt organisations	Nature of activities
501(c)1	Corporations organised under act of Congress (e.g., federal credit unions)	Instrumentalities of the USA
501(c)2	Title holding corporations for exempt organisation	Holds title to property of exempt organisations
501(c)3	Religious, charitable, scientific, testing for public safety, literary, educational, to foster national or international amateur sports competition, prevention of cruelty to children or animals.	Activities relevant to the class of organisation
501(c)4	Civic leagues, social welfare organisations, and Local Associations of Employees	Promotes community welfare which may be charitable, educational, or recreational
501(c)5	Labour, agriculture and horticultural organisations	Aims to improve work conditions and products through education or instruction
501 (c)6	Business leagues, chambers of commerce and real estate boards.	Aims to improve business conditions
501(c)7	Social and recreational clubs	Pleasure, recreation, social activity
501(c)8	Fraternal beneficiary societies and associations	Lodge provides life and sickness, accident or other benefits to members
501(c)9	Voluntary employees' beneficiary societies	Provision for life and sickness, accident or other benefits to members
501(c)10	Domestic fraternal beneficiary societies and associations	Lodge assigns its net earnings to charitable, fraternal, and other specified purposes; does not pay life, sickness, or accident benefits to members
501(c)11	Teachers' retirement funds associations	Teachers' association for payment of retirement benefits
501(c)12	Benevolent life insurance associations, mutual ditch or irrigation companies and mutual co-operative telephone companies.	Activities that provide mutual benefits for members of each class of organisation
501(c)13	Cemetery companies	Burials and related activities
501(c)14	State-chartered credit unions, mutual reserve funds	Loans to members
501(c)15	Mutual insurance companies or associations	Provision of insurance to members
501(c)16	Co-operative organisations to finance crop operations	Financing as well as marketing or purchasing
501(c)17	Supplemental unemployment benefit trusts	Provision of supplemental unemployment compensation benefits
501(c)18	Employee-funded pension trusts (created before June 25, 1959)	Pension benefits plan funded by employees
501(c)19	Post or Organisation of Past or Present Members of the Armed Forces (war veterans' organisations)	Activities relevant to the nature of the organisations
501(c)21	Black lung benefit trusts	Fund paid by coal mine operators to pay liability for disability or death due to black lung diseases
501(c)22	Withdrawal liability payment fund	Fund for meeting the liability of employers withdrawing from a multi-employer pension fund
501(c)23	Veterans associations founded prior to 1880	Provision of insurance and other benefits to veterans
501(c)25	Title holding corporations or trusts with multiple parent corporations	Holds title and pays over income from property to 35 or fewer parents or beneficiaries
501(c)26	State-sponsored organisation providing health coverage for high-risk individuals	Provision of health care coverage to high-risk individuals

Tax Code Section	Type of tax-exempt organisations	Nature of activities
501(c)27	State-sponsored workers' compensation reinsurance organisation	Reimburses members for losses under workers' compensation acts
501(c)28	National railroad retirement investment trust	Manages and invests the assets of the Railroad Retirement Account
501(c)(29)	CO-OP health insurance issuers	Health insurance issuers that received loans or grants under the CO-OP (Consumer Operated and Oriented Plans) program
501(d)	Religious and apostolic organisations	Regular business activities; communal religious community
501(e)	Co-operative hospital service organisations	Performs co-operative services for hospitals
501(f)	Co-operative service organisations of operating educational organisations	Performs collective investment services for educational organisations
501(k)	Child care organisations	Delivery of care services for children
501(n)	Charitable risk pools	Pools certain insurance risks of sec. 501(c)(3) organisations
501(q)	Credit counselling organisation	Provides credit counselling services
521	Farmers co-operatives	Co-operative marketing and purchasing for agricultural procedures
527	Political organisations	A party, committee, fund, association, and others that accepts contributions directly or indirectly or spends for political campaigns

Adopted from US IRS, 2011, pp. 72–73

Citing official economic statistics, Roeger et al. (2012) reported that, during the period 2000 to 2010, nonprofit spending outpaced earnings from services. Reduced spending from government due to the recession and budget cuts also affected the capability of nonprofits to provide much-needed social welfare services at a time when they were needed most (Boris, de Leon, Roeger, & Nikolova, 2010). Adding to the budget shortfall was the decline in income from assets (rental, interest and dividends). Based on official data, income from assets had steadily declined since 2007, by 13% in 2008, 5.3% in 2009 and 7.3% in 2010 (Roeger et al., 2012) (see Table 2.7).

Other social economy organisations

A study on the economic impact of US co-operatives found that there were almost 30,000 co-operatives and credit unions operating 73,000 establishments across the USA (Deller, Hoyt, Hueth, & Sundaram-Stukel, 2009). Collectively they owned more than USD3.126 trillion (AUD2.475tn) in assets, which is more than what the reporting public charities own. However, 42.4% of the 1,244 co-operatives sampled were found to incorporate as nonprofits and some enjoyed federal tax-exempt status. The US co-operative sector generated an estimated USD654 billion (AUD517.8bn) in revenue annually, 2.143 million jobs and paid USD75 billion (AUD59.4bn) in wages and benefits. The total value-added income to the US economy was an estimated USD133.5 billion

(AUD105.7bn), while USD75 billion (AUD59.4bn) in patronage refunds and dividends benefited more than 350 million co-operative members. This number, however, was more than the US population of 314 million people due to multiple memberships and 340 million were involved in consumer co-operatives.

Table 2.7: Size and contribution of US nonprofits

Estimated number of nonprofit organisations, as of 2012 (including religious congregations and smaller nonprofits from state registers)	2.3mn
Number of registered nonprofits in the IRS, as of 2012	70% of 2.3mn or 1.6mn
Number of reporting 501(c)(3) public charities	366,086 or 23% of 1.6mn
Ratio of nonprofits to total population, as of 2012	1 nonprofit:175 Americans
Contribution to US GDP, 2010	USD804.8bn (AUD740.2bn) or 5.5%
Total assets of reporting 501(c)(3) public charities	USD2.71tn
Sources of income of reporting 501(c)(3) public charities, 2010	
Sales receipts (tuition, medical payments from public/private sectors)	USD836.6bn
Transfer receipts (grants and donations)	USD270.0bn
Asset income (investments, real estate)	USD49.5bn
Total income generated, 2010 (at AUD1:USD 0.9197)	USD1.51tn/AUD1.39tn
Total expenses, 2010	US1.45tn/AUD1.33tn
Percent of reporting 501(c)(3) public charities with expenses of USD10mn and above, 2010	4%
Share of reporting 501(c)(3) public charities with expenses of USD10mn and above to total spending, 2010	85%
Growth in employment, from 2000 to 2010	
* nonprofit sector	17%
* public sector	8%
* market sector	-6%
Growth in wages, from 2000 to 2010	
* nonprofit sector	29%
* public sector	23%
* market sector	-1%
Number volunteers, 2010	62.8mn
Value of volunteer work, 2010	USD283.84bn
Gifts from individuals, foundations, corporations and bequests, 2010	USD290.89bn

Source of data: Roeger et al. (2012)

5. Challenges and critiques

Debatable US nonprofit sector

Although the ILO and UN endorsed the Johns Hopkins nonprofit sector approach conceptualised by Salamon and colleagues, it remains the subject of lively debate among academics in the USA, and between its proponents and European commentators (Defourny & Nyssens, 2010; Evers & Laville, 2004b; Morris, 2000; Salamon, 2010). The debates usually centre on the universality of the structural-operational definition of the nonprofit sector, particularly its exclusion of co-operatives and mutual associations and their democratic governance traditions. Salamon (2010), however, argues that the structural-operational definition includes co-operatives and credit unions formed by the poor. Still, the nonprofit-distribution constraint remains a central criterion and the accommodation of other social and political realities serves to highlight the difficulty of articulating an internationally transportable third sector or social economy theory (Cho, 2006; Corry, 2010; Lohmann, 1992; Nicholls, 2010b). Australia's experience in using the UN's classification system underscores this problem and perhaps explains why other developed countries have not adopted this system (European Commission [EC], 2011f).

Also debated is the Johns Hopkins nonprofit sector approach's claim that nonprofit organisations comprise a country's 'civil society sector' (Lohmann, 1992; Morris, 2000; D. H. Smith, 1997; Van Til, 2000, 2009). Although the concept of civil society is itself contested, narrowing civil society to registered nonprofit organisations in the tax code 501(c)(3) that includes hospitals, schools and other public institutions appears misleading. As already demonstrated by Edwards (2004), civil society associations alone do not make civil society.

Since the turn to income generation by nonprofits was a private initiative to fill the gap in state funding in the 1970s, supporters of the modern nonprofit sector have tended to shield it from the state, preferring instead to establish relationships with private donors and the business sector. Hence, from the simple income-generating activities by nonprofit organisations to supplement state funding, the US nonprofit sector has evolved into a growth industry (Farruggia, 2007; Van Til, 1993). As written earlier, even the Social Enterprise Alliance describes the social enterprise subsector a social enterprise industry.

Pozen (2008), in his critique of the propensity of US interest groups to attach the label 'entrepreneur' to all sorts of social change actors, such as 'social entrepreneur', 'moral entrepreneur', and 'policy entrepreneur', claims that the market metaphor is misleading. While he believes the term 'change agent' is more appropriate, on one hand, he is partial to the label 'social entrepreneur', on the other, because it underscores the 'dialectical relationship' between capitalists

and social entrepreneurs. In this dialectic, the social entrepreneur ‘aims to rectify the market’s social harms by working *within* the existing capitalist structure’ (Pozen, 2008, pp. 338-339). By highlighting this, Pozen (2008) shows why the term ‘social entrepreneur’ fits well with the US capitalist ethos and why wealthy capitalists embrace the US brand of social entrepreneurship. Still, he provides food for thought to commentators and practitioners who use the word indiscriminately and remind them of its ideological tensions and implications.

A number of US academics, however, are seeking to reconnect political theory and the US third sector discourse in order to broaden the scope of study of the grassroots voluntary and nonprofit sector (Lohmann, 2007; Skocpol, 2003; Van Til, 2000, 2009). This is also relevant in light of the global financial crisis that has affected a number of US nonprofits following the business model in managing their organisations (Lohmann, 2007; Miller, 2010), including the bankruptcy and closure in March 2012 of the iconic 120-year-old Hull House founded by Jane Addams and Ellen Gates Starr (Feratu & Martin, 2012; Franklin, 2012). The last country case, Australia, is discussed in the next section.

Australia

1. Emergence of social enterprises

Australian scholars and practitioners have used several labels to describe TSOs, including ‘third sector’ (Lyons, 2007), ‘not-for-profit sector’ (Barraket, 2008), ‘social enterprise sector’ (Barraket, Collyer, O’Connor, & Anderson, 2010) and ‘social sector’ (Baldwin, 2009). In his study of the Australian nonprofit sector, Lyons (1998) used the JHCNSP’s structural-operational definition thus excluding co-operatives, mutual associations and credit unions from his important study.

According to Lyons (1998), migrant settlers from the UK and Ireland transplanted some of the practices and ideologies of British middle-class charities and workers’ associations to Australia, including the traditional rivalry between the Catholic and Protestant churches. Hence, a large number of TSOs in the 19th century were formed along class and religious lines. As examples, middle-class families established public charities to deliver social services to disadvantaged classes, while rival churches established schools, hospitals and charitable institutions for their respective believers and followers. Workers and the self-employed founded friendly societies and mutual associations for their own social and economic protection, while small farmers formed co-operatives. The favourable economic and political environment also allowed trade associations, labour unions and other voluntary associations to form political parties to advance their interests. Despite these seemingly antagonistic groupings, Lyons (1998) noted that Australians were united by

their love of sport, manifested through myriad sports clubs across the country. Several important historical events, within Australia and in the Western world, such as the First World War, the Great Depression from the 1920s to 1930s, and others, greatly changed the landscape of the Australian third sector and public giving. In particular, the Second World War saw the Labour government expanding its tax base from 20% of the working population to 100% enabling the state to take over many of the functions of public charities and traditional friendly societies providing social and economic protection. As a result, many retreated into the background and dwindled. Both Conservative and Labour national governments ended sectarianism by funding private educational institutions owned by churches. The political upheavals and economic recession in the 1970s, however, gave birth to new mass movements, such as the feminist and Aboriginal Australian rights movements, which originated in local communities. These organisations also benefited from state and national government subsidies. The advance of neoliberal globalisation and the opening up of Australian migration to non-European nationals introduced additional challenges and opportunities to the Australian third sector (Lyons, 1998; Lyons, Hocking, Hems, & Salamon, 1999). First, the Australian sports clubs became highly commercialised. Secondly, finance capital resulted in the demutualisation of a number of mutual associations. Thirdly, the changing values and aspirations of Australians over the years led to declining membership and volunteering in traditional associations and the emergence of nonprofit organisations serving the needs of ethnic communities (Lyons, 1998).

Lyons (1998) noted there was an effort in the 1920s to ‘articulate a theory of social formation based on associations’ but this did not prosper (Hughes in Lyons, 1998, p. 4). However, academic interest was revived by the perceived success of third sector organisations in responding to market and state failures. As in other parts of the world, important research on the Australian third sector followed (Baldwin, 2009; Barraket, 2008; Barraket et al., 2010; Gibson-Graham, 2008; Gray et al., 2003; Kernot & McNeill, 2011; Lyons et al., 1999). Both practitioner and university-based centres on social entrepreneurship were also established, including the Centre for Social Impact (CSI), Social Ventures Australia (SVA) and Social Traders Australia (STA).

2. Major conceptual approaches to social enterprise

In terms of academic theorising, Gibson-Graham (2008) proposed a ‘diverse economies’ framework to explain the phenomenon of social enterprise and third sector organisations. Their (note: these two authors’ surnames are concatenated as a political-feminist statement) framework was somewhat similar to the ‘plural set of economies’ advanced by the EMES/European scholars and Pearce’s (2009) three systems framework. In contrast, Lyons (2007) argued for an analysis of the Australian

third sector through a four-sector approach. Although more of a challenge and proposal for a research agenda in the Australian third sector, rather than a theoretical framework, Lyons (2007) demonstrated the importance of studying not only third sector organisations but also the three other sectors that mutually impinged on one another – the household, public and business sectors.

From their political-economy perspective, Gibson-Graham (2008) challenged academics to think in terms of ‘a discourse of economic difference’ through an ‘ethical and performative reading’ (p. 618) of the array of local economic actions being ignored by the dominant economic language of capitalism. In this way, they envisioned a broadening of research topics to foreground neglected and taken-for-granted community economies, which the totalising global capitalist economy ignored. Their ‘diverse economies approach’ advanced a comprehensive analysis of economic activities and economic agents in society that went beyond the boundaries of the third sector or social economy frameworks. But, strikingly, their approach includes criminal economic activities, as well as economic phenomena that might be considered ‘morally’ repulsive, such as slavery and indentured labour. Moreover, some of the economic agents might not wish to be studied precisely because of the nature of their illegal activities in underground markets. Nevertheless, the strength of the framework is its critical and imaginative stance towards the dominating but, according to the authors, marginal capitalist economy (Gibson-Graham, 2008).

Among academics and practitioners, however, there seems to be a convergence towards the European/UK third sector model. For example, Gray et al. (2003) described social enterprises as organisations that perform quasi-market functions through the application of entrepreneurial acumen. They engaged in revenue-generating schemes to: (i) finance their social aims; (ii) preserve their integrity (as belonging to the community); and (iii) employ a critical though not necessarily adversarial stance towards the public and private (business) domains.

In the first phase of the *Finding Australia’s Social Enterprise Sector (FASES)* research project launched in 2009, the research framework borrowed some aspects of EMES’s definition of social enterprise (Barraket et al., 2010) whereby organisations must exhibit certain characteristics to qualify as a social enterprise. They must:

1. Have an economic, social, cultural, or environmental mission consistent with public or community benefit.
2. Trade to fulfil their mission.
3. Derive a substantial portion of their income from trade.
4. Reinvest the majority of their profit/surplus in the fulfilment of their economic, social, cultural, or environmental mission (Barraket et al., 2010, p. 14).

In terms of this definition, Barraket et al. (2010) deliberately excluded co-operatives, mutual societies and credit unions in the first phase of the research project, since they wanted it to be participatory and bottom-up rather than top-down. They found that social enterprise practitioners included co-operatives, mutual associations and other grassroots organisations that contribute to the strengthening of community bonds in their definition of a social enterprise. Hence, the next phase of the FASES project would include all types of social enterprise, regardless of their legal status, so as to provide a more encompassing map of the Australian social enterprise universe.

3. Legal framework and regulatory environment

The Australian Charities and Not-for-profits Commission Act (2012) established the Australian Charities and Not-for-profits Commission (ACNC) as the national agency to regulate the not-for-profit sector. However, the law only specified one type of not-for-profit entity, ‘a charity’, delineating seven subtypes, leaving the ACNC to define its sector and the type of not-for-profit organisations within it. All not-for-profit organisations registered with the Australian Taxation Office (ATO) were automatically transferred to the ACNC, with whom they could register if their work entailed: (i) relief of poverty, sickness or the needs of the aged; (ii) advancement of education; (iii) advancement of religion; (iv) a purpose beneficial to the community; (v) promotion of the prevention or control of diseases in human beings; (vi) public benevolence; or (vii) provision of childcare services. In Australia, not-for-profit organisations can make a profit as long as the nondistribution constraint is observed ‘both while the organisation is operating and when it winds up’ (Australian Taxation Office, 2011, p. 3). This means all profits go back to the organisation for the pursuit of its mission and are not distributed directly or indirectly for the economic benefit of its members or owners. This law is similar to the US tax code Section 501(c)(3) that prohibits the distribution of profit.

4. Scope and contribution to the economy

Australia was the first OECD-member country to adopt the *UN Handbook on Nonprofit Institutions in the System of National Account*. In 2009, the Australian Bureau of Statistics published the *Australian National Accounts: Non-profit Institutions Satellite Account* reporting the economic contribution of Australian nonprofits during the period 2006–2007. However, the ABS adapted the UN international classification for nonprofit organisations (ICNPO) (see Table 2.8) to make it more reflective of Australia’s socioeconomic context. In addition, it found the definitions of some of the groupings not to be ‘theoretically clear cut’ (Australian Bureau of Statistics [ABS], 2009, p. 39).

Whereas the UN ICNPO has 12 groups or classifications, ABS reported only nine by making ‘hospitals’ a separate group from the general classification ‘health’ and by conflating groups five to nine into one group labelled ‘environment, development, housing, employment, law, philanthropic and international’ and renaming group 12 ‘not elsewhere classified’ as ‘other activities’ (ABS, 2009, p. 22). Also, since the UN Handbook excluded associations that distributed profits to members, such as co-operatives, mutual societies and credit unions, the ABS nevertheless provided aggregate data for this family of social economy associations.

The ABS differentiated nonprofit organisations into nonprofits engaged in market production and non-market-oriented nonprofits. It defined market-oriented nonprofits as organisations that ‘receive income from sales sufficient to cover the majority of their costs of production. Sales in this context includes income received from government provided on a volume basis, rent, leasing and hiring income, sponsorship income and membership fees’ (ABS, 2009, p. 47). Non-market nonprofits were defined as organisations that relied ‘principally on funds other than receipts from sales to cover their costs of production or other activities’ (ABS, 2009, p. 47).

Of the total number of Australian nonprofits in 2007, 37.4% were found to be market producers and 62.6% non-market producers. Nonprofits producing for the market were engaged in activities such as education and research (79.2%); health, excluding hospitals (54.7%); hospitals (100%); business and professional associations and unions (81.3%). The non-market producers were found mostly in culture and recreation (57.0%); social services (59.2%); environment, development, housing, employment, law, philanthropic and international (92.2%) (see Table 2.8).

Table 2.8: Distribution of nonprofits by ICNPO and type of production (2006-2007)

ICNPO	Total no.	% Market	% Non-market
Culture and recreation	11,510	43.0	57.0
Education and research	6,621	79.2	20.8
Health excluding hospitals	919	54.7	45.3
Hospitals	102	100.0	N/A
Social services	7,811	40.8	59.2
Religion	12,174	Not available	Not available
Business and professional associations, unions	3,224	81.3	18.7
Environment, development, housing, employment, law philanthropic and international	11,972	7.8	92.2
Other activities	4,446	Not available	Not available
Total	58,779	37.4	62.6

Source of data: ABS, 2009, p.12.

As in the UK, European Union and the USA, the major source of income of registered Australian market nonprofits was the public sector. Table 2.9 shows that there were an estimated 58,779 registered NPOs in Australia in the period 2006–2007 contributing value-added of over AUD40 billion to the Australian economy. The sector generated an income of AUD76.6 billion and had total assets of AUD138 billion. It employed 890,000 people, with volunteering hours valued at nearly AUD15 billion. The contribution of the nonprofit sector to the Australian economy is, therefore, quite significant.

Table 2.9: Australian nonprofit sector (2006–2007)

Number of nonprofit organisations registered with the Australian Taxation Office (ATO) at June 2007	58,779
Nonprofit sector's value added – national accounts basis	AUD40.9bn 4.1% of GDP(a) 4.3% of GVA(b)
Nonprofit sector's value added – NPI satellite account basis	AUD55.8bn
Income (from sales, fees, grants and gifts)	AUD76.6bn
Total assets	AUD138bn
Total employment (paid staff, full-time, casual, regular part-time)	889,900 persons
Number of volunteers	4.6mn with an economic value of AUD14.6bn
Volunteer hours: 623mn hours	
Number of full time equivalents: 317,200	

Source: ABS, 2009, p. 4

Notes: (a) Gross Development Product (GDP) = value of production inclusive of product taxes.

(b) Gross Value-Added = direct value added to the economy.

Other social economy organisations

Market-oriented social economy organisations excluded from the Australian nonprofit sector included 103,000 strata titles, 143 credit unions, 14 building societies and 55 religious charitable development funds invested in financial institutions (ABS, 2009) (see Table 2.10). Strata title refers to ownership of common property under the Strata Schemes (Freehold Development) Act 1973. For example, owners of condominiums or building units form an owners' corporation that will be responsible for repair and maintenance of common areas of the building. The Australian Prudential Regulation Authority (APRA) defines religious charitable development funds as 'funds established by religious organisations for the purpose of seeking investments from the public to help further the funds' religious and charitable goals and objectives' (APRA website).

Table 2.10: Number and value of excluded organisations (2006-2007)

Entity	Number	Economic value
Strata titles	103,000	N/A
Credit unions	143	Interest income AUD2,747.2mn
Building societies	14	Interest income AUD1,351.2mn
Religious charitable development funds	55	N/A

Source of data: ABS, 2009, p. 37.

Meanwhile, the Australian Co-operatives Council estimated that the top 100 co-operatives, mutuals, and credit unions in the country generated AUD17.8 billion in revenue (Co-operatives Australia, 2012). The top 100 had a combined membership of 12,860,286 and employed 29,957 workers. Additionally, the Pro Bono Australia estimated that there were over 600,000 organisations and 56,000 donors and advisors in the Australian not-for-profit sector (Pro Bono Australia website). Of this number, only a small fraction (57,828 or 9.6%) was registered in 2013 in the newly-created Australian Charities and Not-for-profits Commission (ACNC website).

5. Challenges and critiques

Studying Australia's not-for-profit sector

Similar to the their counterparts abroad, Australian commentators have questioned, too, the relevance of the social enterprise 'brand' when applied to Australian not-for-profit organisations that were in existence long before the term was coined. In their FASES study, for example, Barraket et al. (2010) found that the social enterprise concept could not be applied unproblematically to the 20,000 Australian not-for-profit entities that engaged in economic activities to fulfil their social mission, especially since Australian governments expect not-for-profits to be low-cost public service delivery arms. The FASES study showed that majority was small locally-based organisations and most (56%) generated income independently of the government with only 29% of earnings coming from public contracting.

In her study of two Australian community enterprises, Cameron (2009) argued that social enterprises could not be measured against economic standards of profitability, efficiency and success. Rather they should be studied for their ability to stay true to their social ethos, while navigating the path towards financial sustainability. Though they might be found wanting on economic criteria, Cameron writes that most succeed in achieving their social mission.

Conclusion

This chapter outlined the development of the social economy in the UK, USA and Australia. Despite their differing historical and socioeconomic contexts, the emergence of the social economy in these countries was primarily a response of marginalised groups to achieve economic and social well-being. However, religious notions of charity and care, which date back to early history, have also influenced its evolution and continue to do so to the present. Since the concepts social economy and civil society are intertwined, governments and various interest groups are struggling to hold onto the civil society ethos of the traditional third sector, whether in the UK, USA or Australia, while embracing the economic benefits of the social economy perspective. In the three countries studied, civil society organisations are struggling to maintain their social mission in an increasingly economically driven public service environment.

Although the concepts described in this chapter are relevant to the overall study, none were found to be sufficient to provide an overarching framework for the research questions pertaining to the broad social economy. On one hand, while the nonprofit sector approach advanced by Salamon and his colleagues has found international acceptance, it was deemed too technocratic and economistic and lacked the social and political edge of the plural economy approach. On the other hand, while Pearce's three systems model was closer to traditional civil society and social economy discourse, it limited the social economy to market-oriented SEOs. Hence, the wider European understandings of the plural economy and related explanatory concepts, such as hybridisation, were found more appropriate to the Philippine case study. These are examined in Chapter 3.

Chapter 3

European social enterprise and social economy approaches

This chapter discusses the theoretical approaches that guided the study of the Philippine social economy and the two case study groups. Given that the social economy organisations (SEOs) included in the study were engaged in a range of economic activities, from fair trade (FT) production and marketing to microfinance operations and business development services, it was determined that a synthesis of the literature and the theoretical approaches in studying the social economy, social enterprises and the FT movement was necessary. The chapter is structured in four parts.

The first part of the chapter discusses the plural economy or tripolar approach employed in studying the profile of the Philippine social economy, reported in Chapter 6. The framework elucidates European understandings of the social economy, which is also referred to as the ‘third sector’. The second part discusses the process in which the social economy ‘hybridises’ the three poles of the economy based on Evers’ (2008) notion of hybridisation. The third part tackles the EMES SE concept of social enterprises as hybrid organisations. The last part, interrogates fair trade as a mixed-form of market or hybrid market itself using the hybridisation concepts developed by Evers (2008) and Becchetti and Huybrechts (2007). The last part also presents Huybrechts and Defourny’s (2008) approach in studying fair trade organisations (FTOs) as social enterprises using the EMES SE approach.

These approaches were synthesised to analyse the SEOs in Case Study 1 and Case Study 2. Since some of the SEOs were FTOs while others were ‘regular’ SEs and NGO networks supporting market-oriented SEOs, the synthesised frameworks varied slightly. The concepts of hybridisation (Evers, 2008), fair trade as hybrid market form (Becchetti & Huybrechts, 2007), and the application of EMES SE concept to FTOs (Huybrechts & Defourny, 2008) were synthesised to analyse FTOs in Case Study 1 and Case Study 2. For SEOs in Case Study 2, Evers’ hybridisation concept and the EMES SE approach were utilised.

Conceptual frameworks

Social economy viewed from the plural economy or tripolar approach to economy

European scholars who have studied the experiences of social economy organisations in work integration (activation) programs and personal care services, advance the concept of a ‘plural economy’ or ‘tripolar economy’ in articulating their theory of the social economy (Borzaga & Defourny, 2001; Centre international de recherches et d'information sur l'économie publique sociale et coopérative [CIRIEC], 2000; Evers & Laville, 2004a). Accordingly, the social economy is found to occupy an ‘intermediate’ space because of its ability to combine the features of the three economic poles identified by Karl Polanyi (1997, as cited in Laville & Nyssens, 2001) in pursuing its socioeconomic and political objectives. These poles are the market economy (private sector), the non-market economy (state or public sector) and the non-monetary economy (community, family and households). This tripolar approach can also be viewed according to types of agents, regulations governing exchange and resources involved (Defourny, 2001). Table 3.1 illustrates this explanation of the tripolar approach by economic sector.

Table 3.1: The tripolar or plural approach to the economy, by sector

	Community/household	State/public	Market/private
Type of agent (Evers, 1995; Pestoff, 1992).	Households, families.	State bodies and public authorities.	Private for-profit enterprises, investors, business owners.
Principles and methods governing exchange based on Polanyi's substantive approach to the economy (Evers & Laville, 2004a).	<i>Cooperation</i> Circulation of goods and services is based on reciprocity and ‘domestic administration’ (Polanyi, cited in Evers & Laville, 2004) among participants who willingly form a social relationship. Reciprocity is the ‘original non-contractual principle of economic action in which the social link is more important than the goods exchanged’ that is a ‘complex mix of selflessness and self-interest’ (Evers & Laville, 2004, p. 18).	<i>Regulation</i> Redistribution is done by a central authority through the welfare state, macro-economic policies, taxes, and others. The relationship developed between government and the governed subjects is defined by a set of obligations and social rights.	<i>Competition</i> Demand and supply is negotiated through the price-setting mechanism. Relationships among agents are defined through formal contracts. Although the market principle may not be socially embedded, the functioning of the market economy is aided by non-market contributions such as tax incentives.
Type of resources used (Defourny, 2001).	<i>Non-monetary</i> Gifts, solidarity, altruism and charity, love.	<i>Non-commercial</i> Welfare or workfare benefits, grants, regulations.	<i>Commercial</i> Money and negotiable instruments.

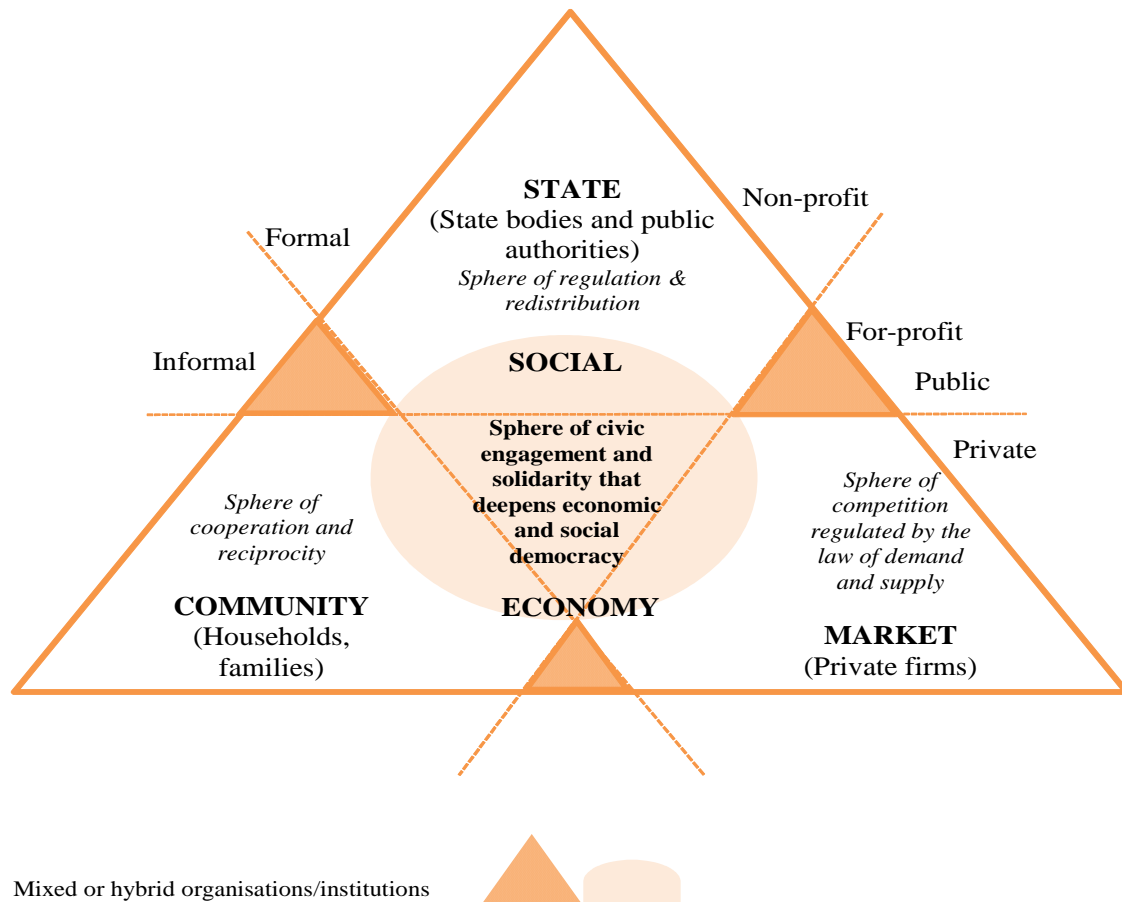
Unlike Pearce's (2003, 2009) three systems model or the Johns Hopkins US nonprofit sector approach discussed in Chapter 2, the social economy is not a distinct system or sector outside the boundaries of the private and public sectors. One classic view of the social economy discussed in Defourny and Borzaga (2001) is the organisational view that the social economy comprises cooperatives, mutuals, associations (nonprofits), and foundations. Although European researchers have different approaches in articulating the framework, they all agree that social economy organisations are able to hybridise the three poles and so prevent organisational isomorphism (Evers, 2008; Laville & Nyssens, 2001). However, Evers and Laville (2004) note, being a 'component of the economy' (Evers & Laville, 2004a, p. 20) that blends solidarity with market and nonmarket values, the third sector or social economy may be described as always in a 'state of tension' with its three poles. Thus, unlike organisations with a distinct identity, e.g., for-profit corporation, social economy organisations engaged in economic activity have to constantly find a way to balance or 'hybridise' competing values and principles in order to succeed as hybrid organisations.

Combining Polanyi's substantive economic theory with other social science theories and empirical research, European scholars and practitioners developed an approach for studying the social economy (Bacchiega & Borzaga, 2001; CIRIEC, 2000; Defourny, 2001; Evers & Laville, 2004b; Laville & Nyssens, 2001). This approach is guided by four principles adopted by several European countries to govern the economic activities of SEOs. They are:

- (i) serving members or the community, rather than generating profit; (ii) an independent management; (iii) a democratic decision-making process; and, (iv) the primacy of people and labour over capital in the distribution of income (CWES, 1990, cited in Defourny, 2001, p. 6).

A synthesis of these understandings of the tripolar social economy framework is presented in Figure 3.1. Adapted here is Pestoff's (1992) original 'welfare mix' (p. 25) model comprising interrelationships between various social institutions and organisations providing welfare services.

Figure 3.1: The tripolar or plural approach to the social economy



Adapted from Pestoff (1992, p. 25)

In their study of the social economy in the EU, CIRIEC scholars Monzón and Chaves (2008) formulated a ‘working definition’ of the social economy that adheres to the CWES principles outlined above:

The set of private, formally-organized enterprises, with autonomy of decision and freedom of membership, created to meet their members’ needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses amongst the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote. The Social Economy also includes private, formally-organized organizations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them (Monzón & Chaves, 2008, p. 557).

Monzón and Chaves (2008) also identify two subsectors of the social economy: one market-oriented comprising social economy organisations that trade and the second non-market-oriented containing nonprofit organisations serving households (Barea & Monzón, 2006; Chaves & Monzón, 2007). Market-oriented SEOs, however, perform additional functions. They: (i) cater to the needs of members who are also owners of the ‘company’; (ii) generate an income through production and trading of goods and services in the market sector; and (iii) distribute surpluses or profits (see Table 3.2). Those that distribute profits do so based on self-help and solidarity principles that discourage profit-maximising behaviour, e.g., dividends based on patronage of goods and services by members rather than capital contribution. The social economy organisations in the market-oriented subsector may also be called ‘companies’ (Chaves & Monzon, 2007).

Table 3.2: Taxonomy of social economy organisations

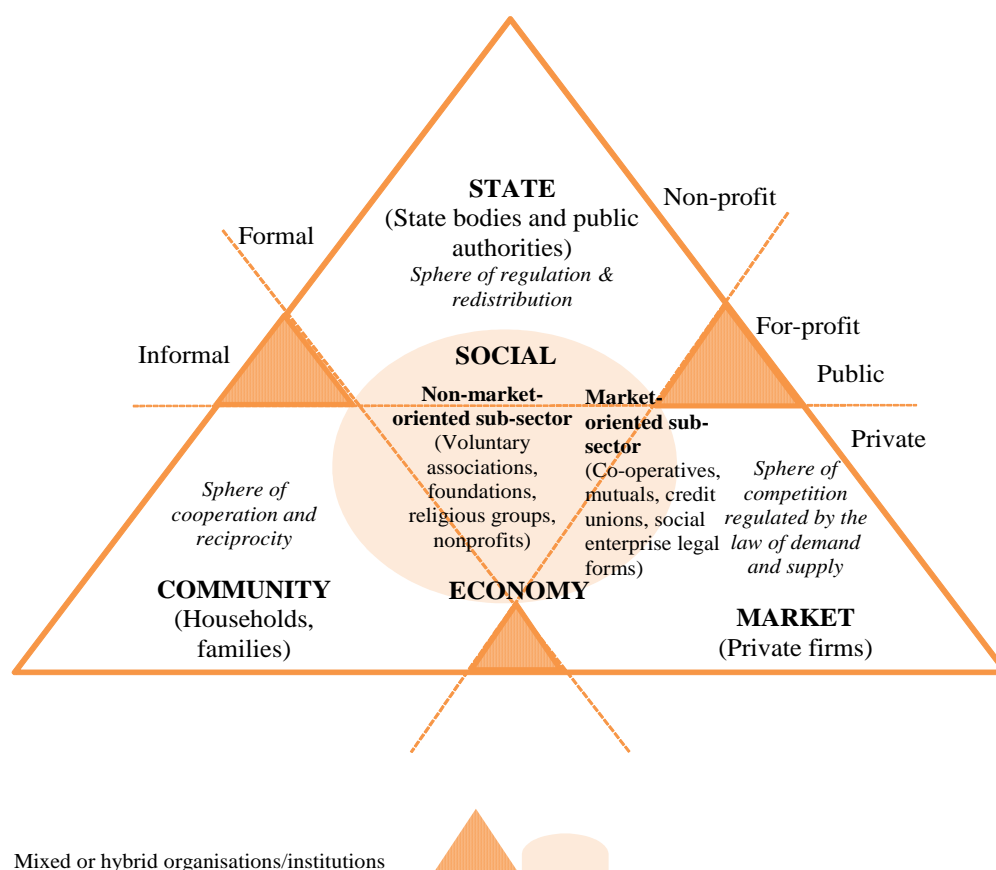
Common features of social economy organisations	Social economy subsector	Functions	Type of SEOs
1. Private 2. Formally organised or legally registered 3. Have autonomy from public or private organisations that may support them 4. Open membership 5. Non-profit or limited profit distribution 6. Economic activity pursued is to benefit members and not to accumulate surplus 7. Democratically-governed but does not exclude nonprofits with closed governing structures as long as their activities benefit disadvantaged groups	Market-oriented	<ul style="list-style-type: none"> • Cater to the needs of members who are also owners of the company • Generate income through sale of goods and services in the market sector • May distribute surplus to members based on self-help principles 	<ul style="list-style-type: none"> • Co-operatives • Mutual societies • Social economy business groups (federations of social enterprises formed to achieve greater efficiency and effectiveness) • Legal forms of social enterprise, e.g., CIC, social co-operative • Nonprofit institutions serving market-oriented social economy organisations, e.g., MFIs
	Non-market-oriented	<ul style="list-style-type: none"> • Produce non-market goods for households • Provide non-market services for households • Might sell goods and services but ploughs surpluses or profits back into the organisation 	<ul style="list-style-type: none"> • Charities • Advocacy groups • Foundations • Relief and aid organisations • Professional groups • Trade unions • Other nonprofits in UN’s ICNPO list except hospitals and universities

Adapted from Chaves & Monzón (2007, pp. 22-27)

The non-market-oriented subsector is the realm of the nonprofit organisations identified in the UN ICNPO Handbook (see Table 2.5 on p. 51). However, unlike the ICNPO, Chaves and Monzón’s (2007) classification excludes hospitals, universities, and other organisations that receive substantial payments from the public and private sectors.

Integrating Chaves and Monzón's (2007) taxonomy with the tripolar approach to the social economy (Figure 3.2) shows that the market-oriented subsector straddles the spheres of the social economy and the market sector, while the non-market-oriented subsector straddles the spheres of the social economy and the community/household sector. However, the social economy itself is one whole hybrid straddling all three spheres. The intersection between two economic poles also represents forms of hybridisation. For example, the intersecting community/household and market sectors may include informal household production systems that engage in the market, such as local exchange trading systems, while the intersection between the market and public sectors may refer to joint private-public economic partnerships. The intersection between the community and public sectors may represent partnerships between community/household organisations and local public sector bodies, while the intersection between the social economy and public sectors may represent partnerships for social welfare delivery.

Figure 3.2: Location of social economy organisations in the tripolar framework



Adapted from Chaves and Monzón (2007) and Pestoff (1992, p. 25)

Hybrid organisations and the process of hybridisation

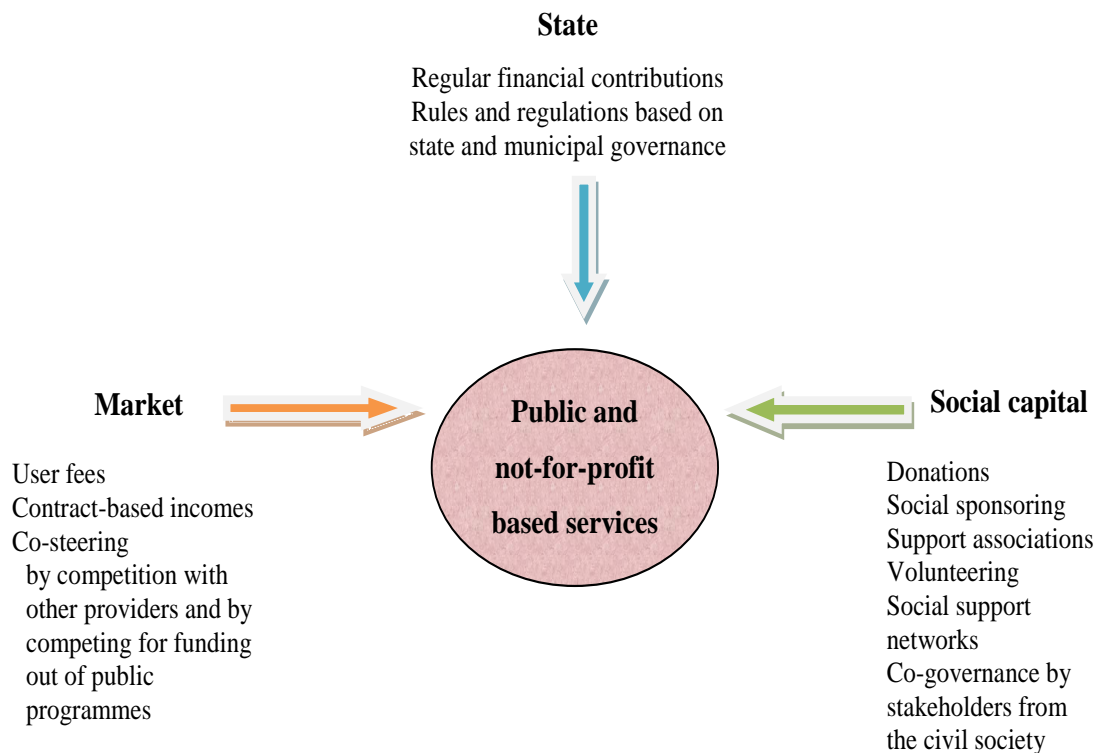
Evers (2008) sees hybridisation of the three poles as a positive process that takes place along four dimensions: resources, goals and activities, governance, and the emerging hybrid organisation embodying the first three dimensions.

1. *Resources* include the bundle of 'social supports' or 'social capital' (p. 284) contributed by organisations from the public sector, market, community/household, and the social economy or third sectors. These may take the form of 'volunteering' by community associations, financing from state agencies, donations from foundations, and entrepreneurial skills and talents from the private sector. In combination, these resources go beyond mere utility because civic values, such as concern for the common good, commitment to the well-being of others or to the larger community, inhere in social capital. Though private interests may perceive social enterprises as enjoying unfair advantages, the latter's limited resources constrain them from achieving economies of scale.
2. *Economic goals* include maximising profits, attaining efficiency, placing long-term unemployed people in the labour market, and income generation; *social goals* include success and sustainability which, in turn, depend on the SEO's ability to assemble resources from several sources and to work with other organisations, including private businesses; building and nurturing civic or social capital across sectors so as to demonstrate their social utility in animating civic involvement, community participation, democratic decision-making, and building solidarity and trust (Defourny, Favreau, & Laville, 2001; Evers, 2001). Evers (2001) believes that public sector authorities should factor in the multiple goals that social enterprises are able to achieve in making decisions and policies relating to the third sector, which is best suited to activities requiring cross-sectoral participation and voluntary commitment than mass job creation, best left to the private sector. Their ability to gather community support around issues of social value, through local development, may sustain their work even in a competitive environment. Still, it is not the goal of social economy organisations to usurp the role of the private sector but to become credible partners with public authorities in delivering relevant public services or in crafting equitable social and economic development policies (see Borzaga, 2004).
3. *Governance* is closely interwoven with the economic goals of maximising profit and income generation through contractual funding agreements suggesting a business model

and the social goals of meeting the needs and promoting the interests of disadvantaged groups suggesting democratic participatory or co-operative forms of governance, such as interagency collaboration or consultation with consumer groups.

4. In the *hybridising process*, a ‘corporate identity’ (p. 286) that embodies the combined values and principles of the tripolar economy is pivotal. Though multiple forms of hybrid organisations (Alter, 2006; Kerlin, 2009), as shown in Figures 3.1 and 3.2, not all hybrids embody the values and principles of the tripolar economy. From the perspective of the plural economy, social enterprises complements the three economic poles by working with and alongside the market, community/household and public sectors (Defourny et al., 2001) (see Figure 3.3).

Figure 3.3: Hybridisation model



Adopted from Evers, 2008, p. 285

The next section discusses the EMES SE concept which sees a social enterprise as a hybrid market-oriented organisation.

EMES SE approach

Although a ‘social enterprise’ is just one type of market-oriented social economy organisation, such as the UK CIC brand or the Italian social co-operative form, collectively social enterprises, whether

from an older family of associations or new legal forms, comprise the EMES-defined social economy (Defourny & Nyssens, 2012). Social enterprises are:

not-for-profit private organisations providing goods or services directly related to their explicit aim to benefit the community. They generally rely on a collective dynamic involving various types of stakeholders in their governing bodies, they place a high value on their autonomy and they bear economic risks related to their activity (Defourny & Nyssens, 2008, p. 204).

EMES differentiates a social enterprise from a nonprofit organisation and a purely economic enterprise. Social enterprises have social and economic purposes and democratic governance systems. These three features constitute an ‘ideal type’ against which social enterprises might be measured (Defourny & Nyssens, 2010, 2012). EMES original definition had only two dimensions, social (six indicators) and economic (three indicators) (Defourny, 2001). In 2012, the governance indicators were separated from the social dimension to further highlight the difference between a social enterprise and other variants, such as ‘social business’, discussed later in the chapter.

The economic and entrepreneurial dimension signifies the performance of SEs in the market which resembles how for-profit companies operate. Since being in the market means selling products and services, SEs must be able to do this on a sustained basis. Another indicator that differentiates SEs from non-market SEOs is risk-taking. It means that the SE undertakes economic activities that are calculated to generate enough profit to support its social goals. But by virtue of being a social enterprise, it can access and creatively combine other sources of capital. While SEs have recourse to voluntary labour, a core of full-time, paid staff is required to ensure business viability.

The social dimension signifies the SE’s *raison d’être* and philosophy to benefit marginalised producers, serve disenfranchised communities, and provide skills training to the long-term unemployed so they can participate in the labour market. Aside from the social mission, the social dimension includes adherence to collective participation and management by members forming the SE, and enjoyment of economic benefits through limited profit distribution. The social dimension, thus, pays heed to the original vision of older forms of social economy organisations discussed earlier.

The participatory governance dimension refers to the SE’s autonomy from organisations that support it, be it the state or other SEOs; democratic decision-making processes by members comprising the SE; and participation by stakeholders affected by the SE’s social and economic activities. Thus, the participatory governance dimension ensures that democratic values are

practised and reinforced at different levels. Table 3.3 summarises the dimensions and indicators that characterise social enterprises.

Table 3.3: Dimensions and indicators of the EMES SE framework

Dimension	Indicators
Economic/ entrepreneurial	<ol style="list-style-type: none"> 1. A continuous activity producing goods and/or selling services; (advocacy is not the main activity). 2. A significant level of economic risk; sustainability is dependent on workers and members to secure adequate resources. 3. A minimum amount of paid work while combining non-monetary and monetary resources and voluntary work.
Social	<ol style="list-style-type: none"> 1. An explicit aim to benefit the community but at the same time promote a sense of responsibility at the local level. 2. An initiative launched by a group of citizens or civil society organisations; this collective dimension must always be maintained even when led by an individual or a small group of leaders. 3. Limited profit distribution to inhibit profit-maximising behaviour.
Participatory governance	<ol style="list-style-type: none"> 1. A high degree of autonomy from public authorities and private organisations that subsidise operations of the enterprise; partners and members have the right of ‘voice and exit’. 2. A decision-making power not based on capital ownership but on one-member-one vote principle. 3. A participatory nature, which involves parties affected by the activity to advance democracy at the grassroots level through economic activity.

Source: Defourny and Nyssens (2012, pp. 77-78)

Since social economy organisations are collective undertakings, the site of study is the organisation or social enterprise. Except in some countries, like the UK and USA, the term ‘social entrepreneur’ is not widely used to refer to the various member-owners of social enterprises. For EMES, the same ideal-typical dimensions govern social entrepreneurship. Hence, this perspective helps ensure that social innovation leads to a deepening of economic and social justice.

The next section discusses the conceptual approach used in studying the FTOs in Case Study 1 and Case Study 2 in addition to Evers’ hybridisation of the EMES social economy.

Fair trade as a hybrid-market form

A review of the literature of the FT movement revealed few commentators linked social and FT enterprises (Alter, 2006b; Nicholls, 2009; Porter & Kramer, 2011). Most seemed to take for granted the nature of FTOs as social enterprises. Of the few who linked the two forms, some advanced the notion that the fair trade market was itself a hybrid (Becchetti & Huybrechts, 2007; Huybrechts & Defourny, 2008; Nicholls, 2010a). To establish the fit between FTOs and social enterprises, Huybrechts and Defourny (2008) interrogated FTOs in terms of their fit with the EMES SE framework. Their findings showed a strong ‘coherence’ between the social, economic, and political goals of FTOs and the ‘hybrid goals’ of social enterprises (p. 186). Before enlarging on their findings, however, a brief history and profile of the FT market is first presented.

Emergence of the fair trade movement

Moore (2004) traces the FT movement to the emergence of co-operatives in late 19th century Europe. However, it is acknowledged internationally that the modern FT movement began in the late 1940s in the USA and in the late 1950s in Europe (Fair Trade Resource Network [FTRN], 2011; WFTO, 2011b). In both regions, faith-based organisations and church missionaries active in the South were among the original actors that ushered the FT movement in the North. In the South, NGOs and individuals committed to social and economic justice saw the need to assist marginalised producers through marketing, financial assistance, and technical support by founding FT marketing organisations (WFTO, 2011). SAFRUDI, which was founded in the Philippines in 1967 by a Belgian religious nun, as well as several of the NGOs in Case Study 2 were among these marketing NGOs. A number of the Southern FTOs established in the 1960s and 1970s connected with Northern NGOs to market handicrafts produced mostly by home-based women workers (FTRN, 2011; WFTO, 2011b). According to FT networks, the trading relations between Northern and Southern FT NGOs were ‘based on partnership, dialogue, transparency and respect’ and their goal was to establish ‘greater equity in international trade’ (WFTO, 2011b, n.p.). The 1960s global economic and political discontent also saw governments from Third World countries demanding ‘Trade not Aid’ as a development approach to end poverty in the South. Thus international and local civil society initiatives converged with this governmental demand to end the ‘unequal exchange’ between North and South (G. Fridell, 2004, p. 414).

WFTO (2011) writes that there were two strands in the growth of the FT movement: one was associated with development trade, while the other was associated with solidarity trade. The former was initiated by European development agencies, and sometimes by faith-based funding

agencies. The latter comprised NGOs, such as Dutch solidarity groups that established third world shops in the Netherlands. These appealed to first world consumers through political solidarity statements, such as, for example: 'By buying cane sugar you give people in poor countries a place in the sun of prosperity' (WFTO, 2011, n.p.). These pioneer alternative shops were the forerunner of 'worldshops' that mushroomed all over Europe and continue to sell handicrafts from developing countries. In the US, large faith-based organisations, such as SERRV and Ten Thousand Villages, were the first to open FT shops (FTRN, 2011).

In 1998, four big European FTOs connected through an umbrella network called FINE to establish a common definition for fair trade. FINE stands for the four organisations that originally comprised it: Fairtrade Labelling Organisation (now the Fairtrade International, which is still identified with its old acronym FLO), the International Fair Trade Association (now known as WFTO), the Network of European World Shops (NEWS!, now incorporated in the European Fair Trade Association (EFTA), and EFTA. The group defined fair trade as:

a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, disadvantaged producers and workers, especially in the South (FINE, 1998 in FTRN, n.d.).

In 2001, FINE expanded this definition to include the following core beliefs:

Fair Trade organizations have a clear commitment to Fair Trade as the principal core of their mission. They, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. They can be recognised by the WFTO logo².

Fair Trade is more than just trading: it proves that greater justice in world trade is possible. It highlights the need for change in the rules and practice of conventional trade and shows how a successful business can also put people first (WFTO Europe website).

The FT movement's core beliefs are further refined into 10 specific principles to guide the practice of fair traders. These are as follows:

- i) creating opportunities for economically disadvantaged producers; ii) transparency and accountability; iii) fair trading practices; iv) payment of a fair price; v) ensuring no child

² The second paragraph seems to be specific for WFTO and is not usually included by other commentators in citing FINE's fair trade definition. Because FTOs included in this study are WFTO members, the definition that includes the second paragraph was cited.

labour and forced labour; vi) commitment to non discrimination, gender equity and freedom of association; vii) ensuring good working conditions; viii) providing capacity building; ix) promoting fair trade; and x) respect for the environment (WFTO, 2011a).

Although the reason for the expansion of the definition was not offered, it is possible that the ‘conflict’ between the two strands or schools of thought in the FT movement triggered the change (Becchetti & Huybrechts, 2007). While the boundaries are not clear cut, the WFTO and the EFTA are depicted in the FT literature as representing the alternative trade strand, also sometimes termed the ‘radical mainstreaming’ school of thought, which includes FTOs that blend market activities with FT’s transformative agenda, such as the Worldshops. The FLO and other FT labelling organisations represent the development trade strand or the ‘commercial mainstreaming’ school of thought, which seeks to enlarge the FT market for commodity producers through supermarket retailing, FT labelling and licensing of fair trade marks to commercial companies (Becchetti & Costantino, 2010; Hutchens, 2009; Jaffee, 2010; Low & Davenport, 2005b; Moore, 2004; Özçağlar-Toulouse, Béji-Bécheur, Gateau, & Robert-Demontrond, 2010; Raynolds, Murray, & Wilkinson, 2007). These two schools are also differentiated by the type of Southern producers they support: the FLO works with commodity producers of coffee, tea, cacao, banana, and other agricultural produce, while WFTO and EFTA work mainly with craft producers.

Judging from the expansion of the FT definition, it is quite clear that a counter-movement has been initiated through a re-appropriation of the original *raison d’être* of FT. However, there is also recognition that, while fighting for trade justice requires solidarity between Northern consumers and Southern producers and political action, it does not preclude FTOs from becoming viable business organisations. Also, the inclusion of the WFTO logo, whose members largely support handicraft rather than commodity producers, and who are involved in the whole process of production to retail, seems to be a way of distancing themselves from large corporations that are certified to carry fair trade marks but whose FT participation is deemed nominal rather than real.

Phenomenal growth of fair trade

As an international trading relationship, the discussion in this section is sub-divided into the Northern fair trade market and the Southern fair trade producers. The ‘North’ represents the wealthy developed countries for commodities and handicrafts, while the ‘South’ represents the poor commodity farmers and handicrafts producers in developing countries.

Northern fair trade market

Fair trade commodity market

From the initial modest attempt to sell handicrafts produced by impoverished Southern producers, the FT movement has grown to encompass more than one million commodity producers and workers from 70 countries (Fair Trade International [FLO], 2013a). FLO furthermore reports that FT products are sold in 125 countries worldwide. While handicrafts remain an important class of goods, they have been overshadowed by coffee and other commodities sold in mainstream retail shops and supermarkets (Moore, 2004; R. H. Robbins, 2013). The phenomenal growth of the FT market is attributed to the institutionalisation of FT certification and labelling beginning with the Max Havelaar mark for coffee in the late 1980s (WFTO, 2011b). This opened the mainstream market for coffee and other commodities. Though it was deemed controversial from the start (Bacon, 2010), the label was also viewed as a significant innovation because it embodied both FT and quality standards assurance (FLO, Becchetti & Huybrechts, 2007; 2004).

Fairtrade International or FLO is the biggest umbrella organisation among FT and ethical certification bodies that have sprung up. Some of these are affiliated with FLO, while some are independent, such as the Rainforest Alliance, the Swiss tandem of Bio-Foundation and IMO (Institute for Marketecology) formed in 2006 (Fairforlife website). Others have elected to disassociate themselves from FLO to pursue their own FT labelling standards, such as Fair Trade USA (formerly Transfair USA) in 2011 (Rice, 2012). As of 2013, FLO has 19 national FT labelling member organisations from 23 countries, three regional producer networks from the South, and five FT marketing organisations (FLO, 2013b). In addition, it has spun off FLO-CERT as a corporate subsidiary in 2003 to meet international standards for organisational certification.

Based on FLO data, global sales as of 2013 of fairly traded commodities, such as coffee, tea, chocolate, wine, bananas, muscovado sugar, and others, topped €4.8 billion (FLO, 2013b). Although total worldwide sales of FLO-certified commodities remain on the increase, annual growth seems to be slowing down as shown in Table 3.4.

Table 3.4: Worldwide sales of FLO-certified commodities, from 2004 to 2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Gross sales worldwide	€ 831.5 mn	€ 1.1 bn	€ 1.6 bn	€ 2.4 bn	€ 2.9 bn	€ 3.4 bn	€ 4.4 bn	€ 4.9 bn	€ 4.8 bn
Growth rate (%)	na	37%	42%	47%	22%	15%	27%	12%	-4%

* FLO (2013b) attributed the decline to the withdrawal of Fair Trade USA in 2011.

Source of raw data: FLO annual reports from 2003 to 2012

Fair trade handicrafts market

As regards FT crafts, WFTO does not collate data from its 386-member organisations based in 71 countries (WFTO, 2012). But, a study commissioned by the Dutch Association of Worldshops (DAWS) generated data estimating the breadth and scope of the FT crafts market in 2010. The study estimated worldwide sales of €285.7 million in 2010, of which €267 million (93%)³ was generated in the North (Boonman, Huisman, Sarrucco-Fedorovtsev, & Sarrucco, 2011). However, worldwide sales may be on the downward trend due to the financial crisis in 2008. With the crisis, WFTO reported that some of its affiliated European shops have been losing as much as 30% of their annual sales (WFTO, 2012). This may be considerable since 31% of the 4,000 world shops in 33 countries are located in just five European countries. These countries also generated 22% of the total worldwide sales.

The study validated the significance of alternative FTOs for Southern craft producers, who are typically home-based female producers and landless workers. Worldshops generate 78% of their sales from crafts and other non-food products. Given their importance, Rudi Dalvai, WFTO President, expressed grave concerns, calling the declining sales a ‘tragedy for many small handicraft producers’ and appealing for greater solidarity from Northern consumers (WFTO, 2012, p. 4). Some of the relevant indicators from the study are presented in Table 3.5.

The next section discusses the Southern fair trade market, its characteristics, and the Southern fair trade actors.

Southern fair trade market

Fair trade commodity producers

Southern producers associations are typically organised as co-operatives (both primary and secondary) and FT marketing NGOs or nonprofits (support organisations) (Boonman et al., 2011). However, a small number of commercial estates and plantations as well as contract production organisations have been certified by FLO as FTOs. Table 3.6 presents a profile of FLO-certified fairtrade producers. It shows data for the total number of producers’ organisations benefitting from FT increasing over the years. However, the number of contract production organisations (CPOs) and hired labour organisations (HLOs) has not changed much. It even declined for HLOs.

³ This is discussed again in the section *Southern fair trade market*.

Table 3.5: Worldwide Fair Trade Crafts Market, as of 2010

Country	Number of Worldshops	Sales in €
France	635	20,280,000
Netherlands	414	31,000,000
UK	115	10,907,375
Sweden	41	20,659
Denmark	17	948,244
<i>Sub-Total</i>	<i>1,222</i>	<i>63,156,278</i>
Total worldshops in 33 countries	4,000	
Share of worldshops of top 5 European countries	31%	
Estimated worldwide sales		€ 285.7 mn
Share of sales of top 5 European countries		22%
Non-food (crafts and clothing) sales		78%
Food sales (coffee, jams, and others)		22%

Source: (Boonman et al., 2011)

Total sales reported and fairtrade premiums received have also been on the upward trend benefitting small producers' organisations (SPOs) the most. Fairtrade premium refers to the additional amount paid to producers on top of the price paid for their products. It is not distributed to individual members or workers of producers associations but is 'restricted to investment in the producers' business, livelihood and community (for a small producer organization or contract production set-up) or to the socio-economic development of the workers and their community (for a hired labour situation) (WFTO et al., 2011, n.p.). How it is used is decided by the producers themselves.

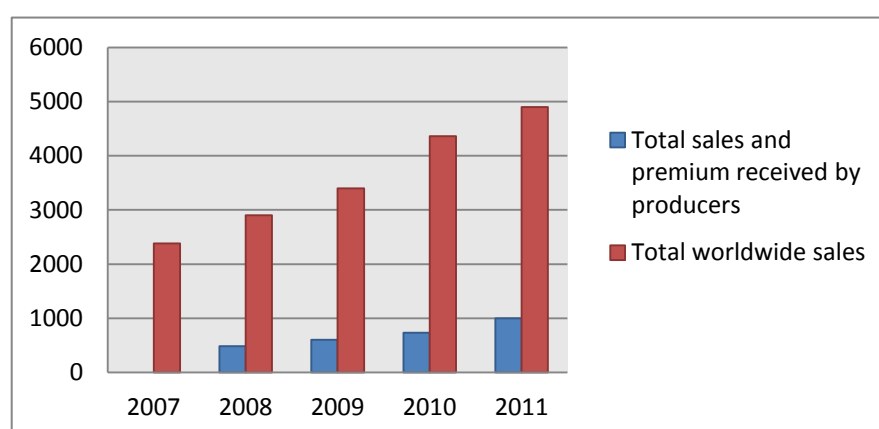
Comparing the reported gross worldwide sales (€4.9bn in 2011 in Table 3.4) with the sum of sales reported (€913mn in 2011 in Table 3.6) and fairtrade premiums received by FLO-certified producers (€86.2mn in 2011 in Table 3.6), the result shows that Southern producers received one-fifth (or 20%) of the worldwide sales in 2011. The difference between the total sales figure worldwide and the lower sales reported by producers may be attributed to the FT supply chain that involves various steps and processes and economic agents before the products reach their final destination, i.e., the consumers. Figure 3.4 shows the proportion of the total amount received by commodity producers against total worldwide sales from 2007 to 2011 as reported by FLO.

Table 3.6: Profile of FLO-certified Fair Trade Producers

	2007	2008	2009	2010	2011	2012
Total number of producer organisations	745	827	905	991	1,139	na
Number of small producers organisations (SPOs)	na	600	657	754	903	na
Number of contract production organisations (CPOs)	na	19	21	24	25	na
Number of hired labour organisations (HLOs)	na	208	227	213	211	na
Total sales reported by all producers (in € mn)	na	443	550	673	913	na
Gross sales reported by SPOs and CPOs (in € mn)	na	351	447	582	822	na
Gross sales reported by HLOs (in € mn)	na	91	103	91	91	na
Total fairtrade premium received by all producers (in € mn)	32.2	42.3	51.5	61.1	86.2	na
Total premium received by SPOs and CPOs (in € mn)	24.6	30.4	38.3	48.4	73.9	na
Total premium received by HLOs (in € mn)	7.6	11.9	13.2	12.7	12.3	na
Number of producing countries	59	60	63	66	70	na
Jobs generated						
Total farmers and workers	na	972,000	1,101,000	1,099,000	1,239,000	1,413,000
Total farmers	na	845,000	938,000	936,000	1,070,800	1,225,500
Total workers	na	127,000	163,000	163,000	168,200	187,500

Source of raw data: FLO annual reports and monitoring the scope and benefits of Fairtrade reports

Figure 3.4: Proportion of Total Amount Received by Fair Trade Commodity Producers to Total Worldwide Sales



Source of raw data: FLO annual reports and monitoring the scope and benefits of Fairtrade reports

Fair trade handicrafts producers

Crafts producers who participated in the DAWS study generated sales from both local and export markets. Of the three regions, African producers seemed to be most active in the local FT market, albeit local sales were still below 50% of the total (see Table 3.7). Based on data provided by craft producers who participated in the study, DAWS extrapolated the total sales for all FT craft producers at €45.4 million in 2010 (Boonman et al., 2011). Of the total receipts, €26.7 million was estimated to comprise export sales, while the remainder comprised local sales. To compute for the total sales in Northern markets, DAWS researchers multiplied by a factor of 10 the extrapolated export sales of local crafts producers, hence, the figure €267 million was arrived at.

Table 3.7: Reported and Extrapolated Worldwide Sales of Craft Producers, by region as of 2010

Sales reported by participating producers	Africa	Asia	South America	Total (all producers)
Local sales	USD5,916,000	USD3,094,000	USD135,000	USD9,145,000
Export sales	USD7,459,500	USD7,945,500	USD682,500	USD16,087,500
<i>Total sales by participating producers</i>	<i>USD14,175,500</i>	<i>USD12,089,500</i>	<i>USD817,500</i>	<i>USD27,082,500</i>
Extrapolated sales	Africa	Asia	South America	Total extrapolated
Local sales	€8,888,000	€5,445,603	€720,742	n.a.
Export sales	€ 11,312,000	€14,002,978	€3,518,915	26.7mn
<i>Total sales for all producers</i>	<i>€ 20,200,000</i>	<i>€ 19,448,581</i>	<i>€ 4,239,657</i>	<i>€45.4mn</i>

Source: Boonman et al., 2011

The multiplication factor of 10 is based on the FT supply chain that involves various steps and processes and economic agents before the products reach the final consumers (Boonman et al., 2011). Thus, a craft worth €2.67 from the producer's end might be sold for €26.70 to the final consumer. The difference does not accrue to the producers but are distributed among the economic agents along the chain, some of whom may not be fair traders, such as shipping, insurance, and warehousing companies. Among commodity producers, the supply chain from the producer to retailer is different for each type of commodity. Hence the multiplication factor might vary for each. Nevertheless, it seems that commodity producers capture a bigger proportion of worldwide sales than handicraft producers. However, in the end, even if FT producers were paid a premium price compared to traditional commodity or handicraft producers and Northern consumers pay more, the full economic benefits of FT would still not redound to the poor Southern producers.

It is clear from the above data that despite the impressive growth of the FT market, total sales of FT commodities and handicrafts remain miniscule compared to global mainstream sales. According to one study, FT sales comprised only 0.01% of total world trade (Becchetti &

Huybrechts, 2007). From a country perspective, the UK which is considered the biggest FT market, its €1.9 billion in total sales in 2012 (FLO, 2013b) pales in comparison with the annual turnover of the UK's biggest supermarket chain, Tesco. In 2012, Tesco registered total sales of £42.8 billion (approximately €51.4bn) (Tesco PLC, 2012). Thus, it may take some time before fair trade can break out from its niche market.

Northern fair trade consumers

Although the FT market is still not a major market actor in the global trade and may seem not to have dented traditional trading relations, commentators believe that it cannot be easily dismissed (Becchetti & Huybrechts, 2007; Gendron, Bisaillon, & Rance, 2009; Jaffee, 2010; Moore, 2004; Wempe, 2005). This is because FT has caught Northern consumers' political imagination, however they are construed. The FT literature on consumer behaviour variously identify Northern consumers as 'ethical' (Hayes, 2006; Newholm & Shaw, 2007; Nicholls, 2007; Nicholls & Opal, 2005), 'social activist' (Doherty & Clarke, 2012; Doran, 2010; Lekakis, 2012), or 'neutral' consumers (Davies, Doherty, & Simon, 2010). And depending on how they behave as economic or political actors, Northern consumers affect the fortunes of Northern FTOs and, consequently, the poor Southern producers. Given the awareness-raising and FT education campaigns undertaken by Northern FTOs, consumer demand for ethical and ecological-sensitive business practices can no longer be wished away.

The proliferation of fairtrade towns and cities, which combine local public sector initiatives with FTOs, community associations, schools, churches, and small local businesses (Fairtrade Towns website) is further proof of how the FT worldview is becoming entrenched in the North. The concept 'Fairtrade Town' is defined as 'any community in which people and organisations use their everyday choices to increase sales of Fairtrade products and bring about positive change for farmers and workers in developing countries' (Fairtrade Towns website). The first fairtrade town was Garstang, a small town in the UK whose population stood at 5,000, when it declared itself the first Fairtrade Town in 2000. Twelve years later, Fairtrade towns and cities numbered more than 1,300 spread in 20 countries (FLO, 2013b). After providing a brief background and profile of the international FT market, the theoretical approaches that guided the analysis of FTOs in Case Studies 1 and 2 are discussed next.

The concept of fair trade as hybrid market

Becchetti and Huybrechts (2007) wrote that the FT market is a mixed-form of market because its multi-dimensionality sets it apart from the conventional free market system. Hence, while FTOs

are in the market, they are not of the market. They identified these dimensions as: economic, social and political activities undertaken; the type of goods offered; presence of a diverse array of FT actors, including FTOs formed under different legal forms, and consumers; the dynamics at play among various FTOs; and the role of the state.

Economic, social and political activities

Unlike commercial companies, FT market actors not only trade material goods but they also undertake social and political activities through FT advocacy and education of consumers. Among pioneer FTOs, the worldshop is the main site for education and information campaigns; while for FTOs, such as those under the FLO network, that advocate greater commercialisation the major signifier of the fairness of the good is the FT mark and label. Hence, education and advocacy play a less central role in their economic activity (Becchetti & Huybrechts, 2007). The recent emergence, however, of Fairtrade towns and cities supported by FLO introduces a new and bigger site, one that no longer appeals to individual consumers that patronise FT shops but to community. Although for-profit corporations may have recourse through their in-house ethical codes of conduct and standards (Bacon, 2010; Davies et al., 2010; Doherty, 2011) and signal their involvement with poor Southern producers through corporate social responsibility practices (M. Fridell, Hudson, & Hudson, 2008) and advertisements (Hutchens, 2009; Jaffee, 2007), these cannot replace the face-to-face social interactions among FTOs actors, Northern consumers, local authorities, and other civil society actors (Clarke, Barnett, Cloke, & Malpass, 2007).

While some of these large companies may be able to create a sense of community through their marketing strategies, Clarke et al. (2007) argued that the ‘political rationality of fair-trade organizations does not imagine the subjects of fair-trade consumption as individualistic, rational consumers’ (p. 602) seeking vicarious community solidarity experiences through ‘brand communities’ (Hutchens, 2009; McAlexander, Schouten, & Koenig, 2002). The latter is exemplified by Starbuck’s emphasis on consumer experience of its ‘in-house services, ambience and “camaraderie”’ (Hutchens, 2009, p. 44). Instead, based on the study of Traidcraft networks in the UK, Clarke et al., (2007), found that FTOs appear to view their supporters and consumers as ‘members of social networks that extend into all sorts of ordinary, everyday spaces’ (p. 602). In the same vein, FTOs and their supporters locate their FT activism in their own social networks and see it as resonating with their other moral and political beliefs and practices (ibid). Thus, blending its trading activity with principles of fairness and solidarity with poor Southern producers, FTOs are able to hybridise private life and public spheres and the economic with ethical and political action (Becchetti & Huybrechts, 2007; Clarke et al., 2007; Doherty, 2011).

The other socio-political element that the FT market combines with its economic activity is 'regulation' (Huybrechts, 2010). The FT definition and the 10 FT principles discussed above embody the regulation framework for both FTOs and mainstream commercial organisations from the local to international levels. The regulation framework includes both FT certification and monitoring system and is meant to benefit both Northern consumers (i.e., through FT and quality assurance mark) and Southern producers (i.e., through increased competitiveness). In the case of WFTO, a recently developed guarantee system assures Northern consumers of WFTO members' organisational compliance with the 10 FT principles along their supply chain and enables them to use the WFTO label on their products (WFTO, 2014). For its part, the FLO implements a product labelling system which guarantees commodities rather than organisations. Thus allowing commercial establishments certified by FLO-CERT to use the FAIRTRADE mark on products bought from FT coffee producers, for example. The FLO-CERT labelling system implements a minimum of five FT principles out of 10 (WFTO, 2011).

Types of good offered

Becchetti and Huybrechts (2007) identify three types of good offered by the FT market: (i) private good, in the form of commodities and handicrafts; (ii) trust good, the 'fair' element embedded in the product; and, (iii) public good, generated through education and awareness-raising and regulation through FT certification and labelling.

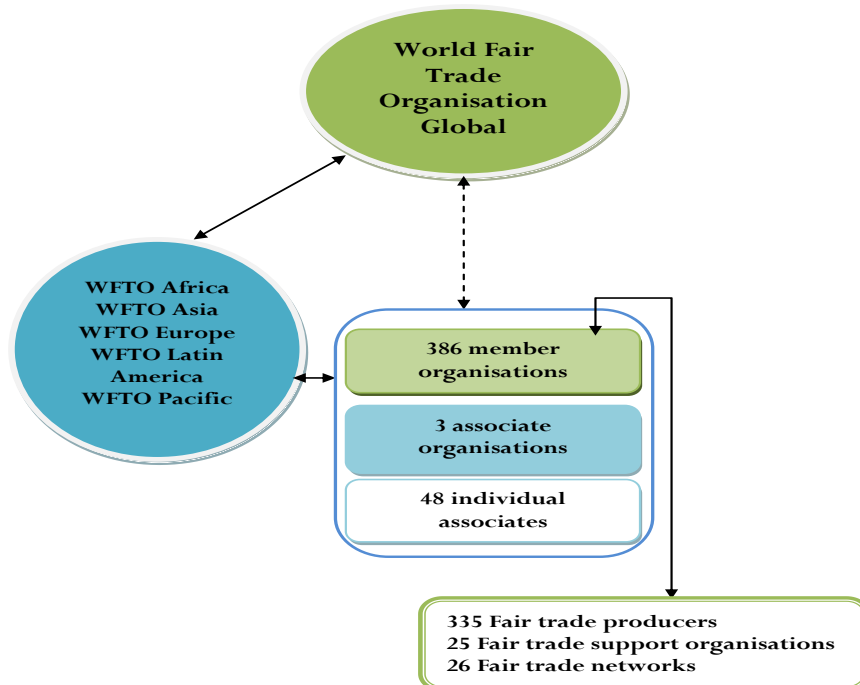
Presence of FTO actors under different legal forms

FTOs are organised as nonprofits, co-operatives, as social enterprises in countries which legally support new forms of SEOs, and as for-profit corporations to meet the legal requirements. However, their FT mandate remains as non-profit maximising for-profit corporations (Becchetti & Huybrechts, 2007). Although the emergence of FTOs organised in various legal forms may have been an adaptation to the legal environment, Becchetti and Huybrechts (2007) argue that this is another aspect of hybridising market and social economy values.

In addition to these market-oriented SEOs, are mainstream corporations that have been licensed to use FT marks on some of their products. Among these are large supermarket chains and TNCs, such as Nestle, Cadbury, and Starbucks. FLO reports that over 3000 companies were licensed to use its FAIRTRADE Mark worldwide in 2012 (FLO, 2013b). These corporations, however, are not considered *bona fide* FTOs. Adding to the organisational complexity of the FT market are the FT networks that have been formed at the national, regional, and international

levels. Both FLO and WFTO exemplify complex multi-stakeholder FT networks. Figure 3.5 illustrates WFTO's complex web of membership and stakeholdership.

Figure 3.5: WFTO Organisational Membership



Source of raw data: WFTO, 2012

Dynamics among the FTO actors

According to Becchetti and Huybrechts (2007) competition is not the only dynamic involving FTO actors in the FT market. Two other types of relationship exist as well, such as conflict and partnership. Competition refers to competition for consumers between 100% FTOs, e.g., worldshops, and nominal FT companies (Becchetti & Huybrechts, 2007; G. Fridell, 2009), e.g., large supermarket chains that sell FT coffee, tea or chocolate (Doherty, 2011) or their own branded coffee, tea or chocolate labelled with their own in-house certification standards (Darryl, 2008). The concept 'nominal fair trade companies' means companies whose fair trade labelled products represent only a tiny percentage of their total goods for sale and do not fully adhere to fair trade principles. However, despite their nominal purchase of fairly traded goods, they benefit from the positive image engendered by their purchase through the 'halo effect' that washes over their whole business operations (Low & Davenport, 2005a; Renard, 2010). Hence, it enables them to compete equally as if they were real FTOs against smaller, 100% FTOs.

As a result of competition between different types of actors, conflicts arise (Becchetti & Huybrechts, 2007). In their study of bilateral relationships between nonprofits and for-profit

corporations, Abzug and Webb (1999) observed that nonprofit and for-profit organisations compete against each other not only commercially but also ideologically. In the case of the FT movement, the conflicts of interest between FT actors and large mainstream corporations as well as the debates on the institutionalisation of the FT market among its various proponents and supporters have been well documented (De Neve, Luetchford, & Pratt, 2008; Doherty, Davies, & Tranchell, 2013; G. Fridell, 2009, 2011; M. Fridell et al., 2008; Gendron et al., 2009; Hutchens, 2009; Jaffee, 2010; Lekakis, 2012; Low & Davenport, 2005a; Lyon & Moberg, 2010; Raynolds et al., 2007; Renard, 2005, 2010; Robinson, 2011).

The last dynamic arising from the social interaction of FT actors is partnership (Becchetti & Huybrechts, 2007). Partnership includes collaborations between nonprofits and for-profit corporations pursuing common objectives and the relationship may be more vertical rather than horizontal. An example of vertical partnership is worldshops franchising their FT retail concept to private retailers; while a horizontal partnership may involve collaborations among FTOs and their supporters on social and political advocacies and education (Huybrechts & Reed, 2010). These include organising weeklong events to celebrate the World Fair Trade Day every 10th of May and the creation of fairtrade towns to promote FT. Another horizontal partnership is forming import and warehousing consortia, such as what Belgian worldshops did to achieve economies of scale (Becchetti & Huybrechts, 2007; Huybrechts, 2010)

The role of the state

The role of the state in the initial development of FT has been minimal and this is also true for the social economy in general (see discussion in section *Legal and regulatory environment*). But since FT has caught the imagination of the consuming public in the North, European governments have become more supportive of the movement (Becchetti & Huybrechts, 2007). While large corporations and conservative political parties have traditionally opposed laws favouring FT, the rise of fairtrade towns in Europe is deemed pushing policy boundaries for public sector contracting (Fisher, 2009). With the global economic crisis affecting European economies, the social economy, including FT, is increasingly being seen as the next growth industry and therefore laws are being debated to support the social economy (Edward & Tallontire, 2009).

Unlike in Europe, US FTOs do not enjoy government support because the strong capitalist ethos and individualistic culture in the USA seem to prevent FTOs from being viewed as legitimate businesses by the public (M. Fridell et al., 2008). On one side, many American consumers still see FT shops as charities. On the other side, the FT label remains anathema to American corporations and oppose any governmental support to FT goods (Jones, 2012). In the South, governments have

largely ignored as well the FT movement. However, the Brazilian and Mexican governments have begun supporting their FT coffee farmers through agricultural development assistance programmes (Jaffee, 2007).

Becchetti and Huybrechts (2007) write that governments can assist the FT movement without being charged with discrimination and unfairness through policies that promote socially responsible procurement, or require ethical trading information and a minimum FT standards as forms of ‘competitive market feature’ (p. 746) for both mainstream corporations and social enterprises; thus, levelling the field for the ethical market. Table 3.8 summarises Becchetti and Huybrechts’s (2007) concept of FT as a mixed-form market.

The next section discusses Huybrechts and Defourny’s application of EMES’s social enterprise concept to FTOs.

Table 3.8: Fair trade as a mixed-form market

	Nature	Producers	Beneficiaries
Trade – material good	Private good	Producers (South)	Consumers (North)
Fairness – fair characteristic	Trust good	North and South organizations	Producers (South) Consumers (North)
Education	Public good	FTOs (North)	Consumers (North)
Regulation		Labellers FTOs (North)	Producers (South)
Diversity of FT landscape	Presence of various types of FT actors, including FTOs, mainstream corporations, and consumers		
Market dynamics	Competition, conflict, and partnership		
The role of the state	Enactment of policies that support FTOs through corporate social responsibility and FT labelling regulations as competitive mechanisms.		

Adapted from Becchetti and Huybrechts (2007)

The concept of FTOs as social enterprises

In their study of 62 European FTOs, Huybrechts and Defourny (2008) analysed the link between FTOs and social enterprises by juxtaposing and comparing FT principles adhered to by FTOs and their governance structures with the three dimensions and indicators of the EMES social enterprise concept. Although they found variations on how FTOs fit the EMES SE framework, their findings

support their claim that FTOs are social enterprises. Since most of the supporting arguments re the hybrid nature of the FT movement and the EMES social enterprise concept have already been discussed above, these will no longer be repeated. Instead, the main ideas that Huybrechts and Defourny (2008) seem to propose in studying FTOs as social enterprises are summarised in Table 3.9.

Table 3.9: The links between EMES social enterprise concept and fair trade principles

EMES social enterprise concept		Huybrechts and Defourny's scheme linking fair trade principles with EMES' concept
Dimension	Indicators	
<i>Economic/entrepreneurial</i>	<ol style="list-style-type: none"> 1. A continuous activity producing goods and/or selling services; (advocacy is not the main activity). 2. A significant level of economic risk; sustainability is dependent on workers and members to secure adequate resources. 3. A minimum amount of paid work while combining non-monetary and monetary resources and voluntary work. 	<ol style="list-style-type: none"> 1. Analyse extent of trading activity undertaken by Northern FTOs to economically assist – through better trading conditions – Southern producers. 2. Analyse market performance and entrepreneurial capabilities of FTOs to survive the mainstream market while advocating equitable trading relationships. 3. Analyse mix of income from trading and non-trading income or resources to support FTO operations.
<i>Social</i>	<ol style="list-style-type: none"> 1. An explicit aim to benefit the community but at the same time promote a sense of responsibility at the local level. 2. An initiative launched by a group of citizens or civil society organisations; this collective dimension must always be maintained even when led by an individual or a small group of leaders. 3. A limited profit distribution to inhibit profit-maximising behaviour. 	<ol style="list-style-type: none"> 1. Analyse how FTOs pursue their vision of fairness and 'greater equity in international trade' and long-term goal of sustainable development. 2. Analyse organisational constitution of FTOs in terms of who are the members of the board of trustees/directors, and how Southern producers are empowered by the trading relationship. 3. Analyse the organisational or legal forms of FTOs that allow for limited profit distribution.
<i>Political/participatory governance</i>	<ol style="list-style-type: none"> 1. A high degree of autonomy from public authorities and private organisations that subsidise operations of the enterprise; partners and members have the right of 'voice and exit'. 2. A decision-making power not based on capital ownership but on one-member-one vote principle. 3. A participatory nature, which involves parties affected by the activity to advance democracy at the grassroots level through economic activity. 	<ol style="list-style-type: none"> 1. Analyse how FTOs' avowed principle of 'trading partnership, based on dialogue, transparency and respect' is practiced in relation to Southern producers. 2. Analyse how FTOs, 'backed by consumers', pursue awareness raising and education to change the inequitable 'rules and practice of conventional international trade' (WFTO, 2001). 3. Analyse how the governance structure of FTOs is implemented.

Adapted from Defourny and Nyssens (2010, 2012) and Huybrechts and Defourny (2008)

The next section discusses the challenges faced by SEOs as hybrid organisations. These challenges include the lack of a unified conceptual definition that hinders policy formulation in support of the social economy, market isomorphism and co-optation, and in the case of the FT movement, the consequences of mainstreaming. The responses to these challenges are also outlined.

Challenges of hybridity and organisational isomorphism

As written earlier, Evers (2008) argues that hybridisation is a positive process of integrating the values of the private sector, the state, and the community/household sector to re-embed the market in society as envisioned by Polanyi. Its opposite is organisational isomorphism which means that market values and state control exert greater pressure on hybrid organisations thereby making them behave more like private for-profit corporations. Thus, to thwart isomorphism and strengthen the sector, most commentators write that social economy organisations need to reclaim their civil society roots. Evers (2008) believes that organisational isomorphism is beneficial to the social economy because it brings back in the critical voice of civil society organisations in the public sphere. Being hybrid organisations, however, presents several challenges.

Lack of a unified conceptual framework hindering enabling laws

Supporters of the social economy perceive that the lack of a unified conceptual definition among countries hinders adoption of enabling laws relevant to all EU-member countries (Chaves & Monzón, 2007; Evers & Laville, 2004c; Osborne, 2008; Spear, 2010). Although the conceptual definition offered by EMES SE is seen as a positive step in this direction, adopting it to harmonise laws would take some time. As an example, in 2004, the European Commission passed Regulation 1435/2003 of the Statute for European Co-operative Society (*Societas Co-operativas Europaea* or SCE) as an enabling law for new forms of social co-operatives at the EU level. The statute allows ‘investor (non-user) members’ to be admitted into SCEs, such as the case of the social co-operatives in Italy. The Italian 1991 Act on Social Co-operatives (no. 381) redefined traditional co-operative principles, which legalised the long-standing practice of social co-operatives of serving members and the community interest. Hence, voluntary membership of up to 50% of the total is allowed, which could comprise workers, consumers and legal bodies, such as municipalities (Borzaga, 2004).

A study of the implementation of the Statute in 30 EU member countries, however, showed that as of mid-2010, implementation was limited due to a number of factors. One of these is attributed to differences in the definition of co-operatives in national laws (Co-operatives Europe, EURICSE, & EKAI Centre, 2010). The EU countries that have adopted the statute have passed legislation recognising the special character of social economy organisations with varying forms of

support and incentives. UK social enterprises can register as CICs, while in Belgium they can register as a 'social purpose company'. In France, a social economy organisation can register as a 'co-operative society of collective interest' (Defourny & Nyssens, 2008). Although Italy did not adopt the statute, the country already housed the majority of SCEs (Cooperatives Europe et al., 2010) created by laws preceding the statute (Borzaga, 2004).

Some commentators, however, believe that the lack of a coherent definition applicable to all countries should not be a major concern (Amin, 2009a; Moulaert & Nussbaumer, 2005). A holistic definition was seen as preferable to an abstract essentialist definition, since the former was open to forms of social economy organisations and reciprocity-based economies that the latter might exclude. Although they did not discount the importance of a rigorous and scientific definition as an aid to understanding and knowledge, they believed that commentators should be mindful of the differences in social economy practice across temporal, historical and spatial contexts. Indeed, the conceptual definitions of social economy and social enterprise showed a strong bias for formally organised entities, leaving out the majority of informal or unincorporated social economy organisations and initiatives, with social and economic values that were difficult to measure. Examples of these were local exchange and trading systems, gift exchanges, community gardening and worker remittances (Amin, 2009; Moulaert & Nussbaumer, 2005).

But, as mentioned earlier, the lack of a unified concept also makes the sector susceptible to organisational isomorphism through state policies and private sector demands. This is particularly true as regards to proposed EU legislations and other policy and development discourses at supranational bodies and in mainstream development agencies, such as the UNDP, World Bank and IMF. While proponents and supporters who have been advocating for a supportive regulatory environment welcomed this breakthrough, other writers echo Lloyd's (2007) caution on the social economy. For example, Hulgård (2010) wonders whether the popularity of social entrepreneurship truly signals a growing influence by the European civil society or whether capitalists are discovering it as a means to a lucrative new profit centre. He fears that, by riding on the ascendance of the social economy, capitalist elites would be able to encroach into the markets at the bottom of the pyramid.

Market isomorphism and co-optation

Since the financial crisis in 2008, there has been greater haste at the EC level to align national laws to strengthen the Single Market (EC, 2011e). Under a new development strategy called *Europe 2020* (EC, 2010b), all social and economic activities would be geared towards strengthening the European Single Market to achieve 'smart growth', 'sustainable growth' and 'inclusive growth' (EC, 2010b, p. 10). The Single Market pertains to the 27 EU countries that agreed to participate in

a common area or common trading zone ‘where goods, services, capital and persons can circulate freely’ (EC, 2011c, p. 1). But, despite the Single Market treaty, various national laws still provide significant barriers to the free flow of trade, capital and people. Thus the EU believes that there is a big scope for economic growth in the Single Market. However, questions regarding the real intent of policy makers to support the social economy remain (European Economic and Social Committee [EESC], 2010). The EMES and the EESC have put forth position papers seeking clarification on a number of issues.

In April 2011, the EC adopted a revised Single Market Act which laid down ‘12 levers’ for economic growth. It included ‘social business’ as lever eight (EC, 2011d). Under this lever, the social economy was positioned as an instrument for public welfare service delivery, social cohesion and environmental protection. A package of measures to create a supportive ‘ecosystem’ for social businesses was proposed (EC, 2011f). This ecosystem spelt out ‘11 key actions’ which included *inter alia*, regulation on European Social Entrepreneurship Funds; microcredit; financial outlay of €90 million from the European Social Fund; simplification of various national laws regulating State aid, co-operatives, mutual societies and foundations; standardisation of public procurement; and mapping of the European social economy/social business landscape (EC, 2011e; EC, 2011f). While these policy measures were welcomed by social economy proponents and practitioners, two policy proposals caused some distress (EESC, 2012; EMES, 2011). These were the ‘Social Business Initiative’ (SBI) and the ‘European Social Entrepreneurship Funds’ (EuSEF). Although the intention was to develop the social economy, the measures adopted were deemed at odds with the European social economy tradition and, uncontested, would usher the marketisation of the welfare state and the financialisation of the social economy along the lines of the Anglo-Saxon and US nonprofit model.

The SBI used the term ‘social business’ as an overarching label to describe social economy organisations. However, the term included nonprofit organisations and other forms of business organisations that did not fulfil the social and economic characteristics of the social economy (EC, 2011d). Commentators argued that ‘social entrepreneurship’ and other terms not grounded in the European social democracy tradition and history should not be used interchangeably with ‘social enterprise’ or ‘social economy’ (EESC, 2012; EMES, 2011). Viewed from the social economy framework, the SBI disregarded the principles of solidarity and reciprocity by defining a social business as an:

enterprise with the primary objective to achieve social impact rather than generate a profit for owners and shareholders, which operates in the market through the production of

goods and services in an entrepreneurial and innovative way, uses surpluses mainly to achieve these social goals and is managed by social entrepreneurs in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity (EC, 2011e, n.p.).

A comparison with the official UK definition of social enterprise showed that the social business concept closely mimicked the Anglo-Saxon definition. The social business approach also accentuated the role played by individual social entrepreneurs as opposed to two of the defining traits of the social economy, e.g., collective undertaking and democratic governance. In addition, social businesses were seen to be operating in the 'highly competitive social market economy' of the Single Market (EC, 2011e, n.p.). This was meant to be an 'open economy which creates space for pluralism of business models to develop and grow' (EC, 2011e, n.p.) and where the role of public authorities was to create the regulatory environment that levelled the playing field for all economic agents (EC, 2011d). Thus rather than recognising the hybrid nature of social economy organisations and establishing a stronger partnership between the private and public sectors in a tri-polar market, the welfare state further retreated, preparing the ground for the marketisation of public services.

Nevertheless, the EuSEF would pave the way for the social economy to be 'financialised', i.e., to enable social businesses to raise funds from the €8000 billion European financial market to finance expansion (EC, 2011a). Disregarding research findings and dialogues showing the myriad challenges confronting the social economy (EESC, 2011; EMES, 2011), the EC chose 'funding' as the main problem hindering its growth (EC, 2011a). According to the EC, the EuSEF as a 'brand' would be the 'passport' for finance capital across the Single Market (EC, 2011a). Through the EuSEF, European asset managers could offer 'impact investors' an option to invest in social businesses. Giant investment bank J.P. Morgan (2010), defined 'impact investors' as wealthy investors looking for investments that 'create[d] positive impact beyond financial return' (p. 5) but expected returns on their investment nevertheless. The bank estimated that the European social investments market could easily grow to more than €100 billion (EC, 2011b). Hence, there was enormous profit to be made in the social economy by private investors.

If these two policy measures were adopted by the 27 EU-member countries, there could be dire consequences for social economy actors, not only in Europe but across the globe, who were searching for a radical alternative to the hegemony of the market. Indeed, the two measures would serve as self-correcting measures to further entrench the market and the colonisation of the everyday world of people at the bottom of the economic pyramid. J.P. Morgan (2010) has not been shy about exploiting the bottom of the economic pyramid in 'emerging markets', such as India,

Bangladesh, Brazil and others. In a case study of the housing sector in these countries, J.P. Morgan (2010) estimated that impact investors could generate USD177–648 billion in profits on total capital investments of USD214–786 billion, a return on investment of more than 82%. Hence, by latching onto the social economy through the current fad of ‘impact investments’, the neoliberal market would be able to normalise the social economy and ‘make it proper’ for the realisation of surplus value (Hardt & Negri, 2000, p. 226). By so doing, it would be able to solve, yet again, capitalism’s twin crises of legitimacy and accumulation (Hardt & Negri, 2000; Harvey, 2011).

To counter the misconception about the social economy as a commercial investment market, 10 European FT networks, including WFTO, have initiated an EU-funded research project titled *Promoting Responsible Investments and Commerce in Europe* (PRICE Europe, 2013b). The project aims to locate the concepts ‘ethical finance’ and ‘socially-responsible investment’ in FT’s core value of solidarity and away from market investment vocabulary. The group called PRICE Europe also seems to distance itself from the social economy discourse and prefers to use instead the label ‘solidarity economy’ to impress its social, environmental, and economic change agenda. PRICE Europe defines ethical finance as an ‘alternative to speculative and market finance’ and as a ‘tool to maximise positive externalities’. Rather than profit maximisation, the goal of ethical finance is to ‘develop a fairer and more equitable interaction between humanity and the environment through the global economy’ (PRICE Europe, 2013b, p. 4). The organisations that PRICE Europe identified as ethical financial institutions belong as well to the social economy sector. These include ethical banks, ethical finance co-operatives and consortia, and microcredit co-operatives.

An ethical bank is defined as a bank that is ‘concerned with the social and environmental impacts of its investments and loans’, which differentiates it from a commercial bank that offers an ethical product portfolio. Ethical finance co-operatives and consortia are defined as ‘democratically run organisations providing microfinance services to low income individuals and small and/or family businesses’. Microcredit co-operatives are defined as credit co-operatives that provide small financial loans, mostly without collateral, to poor or low-income clients (PRICE Europe, 2013b, p. 5). PRICE Europe hopes that by enticing the investing public, i.e., ‘investors and consumers, young people and adults who wish to pursue a path of responsibility’, to put their money in ethical financial institutions it would eradicate the cyclical financial crisis created by speculative investment as well as ease FTOs’ financing problems relating to importation of FT goods, advance payment to Southern producers, and others (PRICE Europe, 2013a, p. 3).

The lack of access to mainstream financing may be attributed to the perception that social enterprises as hybrid organisations are not ‘real’ businesses but charities. Therefore, they are less professional, inefficient, and offer lower quality goods and services compared to private for-profit

businesses. Although social enterprises perform an invaluable social and economic role, they have to transcend these misconceptions to access private finance (Greffé, 2007). Furthermore, because they are also micro or small enterprises, they are not qualified to access commercial bank loan portfolios which favour large businesses that offer bigger returns to financial institutions. Thus, to address the problem of financing for member-beneficiaries, particularly single women and ethnic minorities, second-tier market-oriented SEOs in EU countries coalesced to provide micro-credit and financing. As an example, the National Association for Entitlement to Credit in France serves as mediator and guarantor between beneficiaries and financial institutions and credit unions in Ireland and Austria (Greffé, 2007). These second-tier market-oriented SEOs are among the ethical financial institutions that PRICE Europe identified as deserving the investing public's money.

Consequences of mainstreaming

As regards mainstreaming and scaling up of SEO operations, there are a number of reasons that appear to militate against it. One is the issue of staying local and close to the community. For example, research shows that the rise of personal care social enterprises owned and managed by affected communities is precisely a reaction against large paternalistic state agencies and impersonal markets (Borzaga & Defourny, 2001; Evers & Laville, 2004b; Moulaert & Ailenei, 2005). Hence, there is strong resistance against 'bigness' among new social enterprises. Another is the nature of the economic activity which prevents many social enterprises from growing beyond their community or level of operation (Austrian Institute for SME Research, 2007). Best practise social enterprise models might be replicated in other communities but factors, such as community ownership, social solidarity and continued government support that led to their success must be present as well (Amin, 2009b). This community rootedness and relaxed and ethical way of working with people, are also what attract skilled employees, volunteers and other supporters who relinquish higher remuneration and benefits from mainstream companies (Amin, 2009a; Borzaga & Depedri, 2009). By behaving like their commercial counterparts, social economy organisations risk losing their uniqueness among skilled and committed employees looking for a different way of working (Amin, 2009a).

At the practical level, social enterprise practice in real life is not as easy and exciting as promoted and celebrated, as evidenced in case studies of social enterprises in various EU countries (Alexander, 2009; Amin, 2009a; Borzaga & Defourny, 2001; Nyssens, 2006; Parkinson & Howorth, 2008; Steyaert & Hjorth, 2007b; Ziegler, 2009). These studies demonstrate that it is messy and complex, and social enterprises are modest and small. They are run collectively by people whose life chances are limited by disabilities and alienation, who have to learn to be

entrepreneurial as they struggle through the day-to-day activities of dealing with life and doing business. The people who manage community enterprises are not the 'bold', 'innovative', 'opportunity-seeking' and risk-taking' social entrepreneurs who seek large-scale solutions to society's problems and do not rest until these are resolved, as promoted by US advocates (Bornstein, 2004; Bornstein & Davis, 2010; Drayton, 2006). In fact, most social economy organisations, i.e., those engaged in market-related activities, have not even heard of the concepts 'social enterprise' and 'social entrepreneur' talked about by development agencies, NGOs and government policy makers (Chaves & Monzón, 2007; Parkinson & Howorth, 2008), while those who did, found difficulty identifying themselves as heroic social entrepreneurs (Ziegler, 2009).

As regards the FT market, while authors are divided over the success of the mainstreaming project, a number of commentators nevertheless caution against 'uncritical engagement with mainstream business' (Doherty et al., 2013, p. 162). These authors argue that since the commercial mainstreaming in the 1990s, organisational isomorphism, such as co-optation, dilution, and fairwashing, have become real (Dickinson, 2011; Edward & Tallontire, 2009; G. Fridell, 2009; M. Fridell et al., 2008; Jaffee, 2010, 2012; Low & Davenport, 2005b; Neuman, 2011; Özçağlar-Toulouse et al., 2010; Raynolds et al., 2007). Nevertheless, other authors believe that the FT movement, especially the Southern producers, has gained from commercial mainstreaming. These authors argue that, while there are challenges, the fairtrade market as a hybrid-market form has kept its social economy perspective through innovative use of social capital (Davies & Ryals, 2010; Doherty, 2011), change in the mindset of Southern FTOs regarding entrepreneurship (Le Mare, 2012), and contribution to the social and economic development of developing countries (Le Mare, 2008). Furthermore, Doherty et al. (2013) claim that, on the whole, the FT movement has achieved its avowed objectives of transforming the Northern market, changing traditional business practices, educating the public, and enlarging the market for Southern producers.

Responses to challenges

As already stated, commentators have underscored the need to ground the social economy in the critical sphere of civil society and to strengthen its solidarity with other transformative social movements to guard against co-optation. Indeed, several alternative economic development frameworks appear to have been appropriated by international aid agencies and private sector groups to suit capitalist market interests. For example, the mainstreaming of the informal economy (K. Hart, 2010), the hijacking of the microcredit program as a means of 'empowering' women (Fernando, 2006) or the appropriation of sustainable development (Redclift, 2005) by international development agencies are just some of the cautionary tales for advocates of alternative economic

development. Hence, scholars and practitioners recommend to ‘interrogate the concept and the practice’ (Cho, 2006, p. 34) of social enterprise or social entrepreneurship.

Because the ‘social’ is inherently political and inhabits the realm of civil society, social entrepreneurs – and now also social investors or impact investors – cannot be assumed to talk on behalf of disenfranchised groups and to prescribe solutions to social problems that they alone determined (Cho, 2006). This means that the social vision that social enterprises or social entrepreneurs advanced has to be subjected to a discursively mediated process with the larger public in civil society (Cho, 2006; Dey, 2007). Cho (2006) draws on Habermas’ theory of social integration to show that, unchallenged, social enterprises and social entrepreneurs could contribute to the further colonisation of the lifeworld with their greater access to the steering mechanisms of money (market) and power (state). Rather than filling the gap and mechanistically taking on the functions of the state and the market, Cho (2006) argues that civil society should instead address the political and economic causes of social problems.

Fowler (2000), Mendell and Nogales (UNDP, 2008) and others echo Cho’s (2006) concerns regarding the whittling down of social economy’s ability to interrogate the state and the market in its drive for financial sustainability. In his review of the social entrepreneurship literature and practice and civic innovation, Fowler (2000) believes that civic innovation is the better option for social economy organisations to resolve the challenge of financial sustainability without compromising their civic rootedness and civil values of solidarity. The weak ties among families of the social economy certainly make them vulnerable to market competition and co-optation by social economic actors predisposed to marketisation. Thus, it seems imperative that the social economy clearly delineates itself as a hybrid sector vis-à-vis the public and private sectors.

The key to delineating the social economy, it seems, is through cross-sectoral networking and coordination among SEOs, buttressed by a research community studying the strengths and limitations of the sector (Chaves & Monzon, 2007). As discussed earlier, despite competition and their differences, FTOs are able to establish partnerships and collaborations in pursuing their common goals. However, the relationship between the FT and co-operative movements have not been fully explored except for a study commissioned in 2005 (Develtere & Pollet, 2005). In other parts of the world, efforts by social economy actors appear to converge on strengthening the sector against intrusions by the state and the market.

Writing at a time when criticisms of the excesses of neoliberalism were dismissed as overplayed, Lloyd (2007) claimed that the social economy was ‘both and simultaneously’ a ‘radical alternative’ and ‘a self-correcting, non-challenging mechanism’ (p. 70) of neoliberal states. But, with the neoliberal project in crisis (Birch & Mykhnenko, 2010), social economy as a radical

alternative seems to be gaining ground (K. Hart, 2011). European and Latin American commentators and practitioners have advanced the plural economy concept in building a 'human economy' (K. Hart, Laville, & Cattani, 2010). That is, an economy that put human interests and care for the environment first over the demands of the market and narrow individual interests. Thus, the ideology of an economy different from what traditional co-operatives and mutual benefit societies represented is being recast to include not only the principles of solidarity and self-help but also *inter alia* social and distributive justice, renewal of communities, support for existing local economies, environmental protection and the inclusion of different forms of associationism and multi-stakeholdership.

Figure 3.6 synthesises the conceptual frameworks advanced re the process of hybridisation by Evers (2008), FT as hybrid market form by Becchetti and Huybrechts (2007), and the application of EMES SE approach (Defourny & Nyssens, 2010, 2013) to FTOs by Huybrechts and Defourny (2008). The synthesis was employed in analysing the SE FTOs in Case Study 1 and Case Study 2. For non-fairly trading organisations in Case Study 2, Evers' hybridisation concept and the EMES SE concepts were used to analyse their experiences.

Conclusion

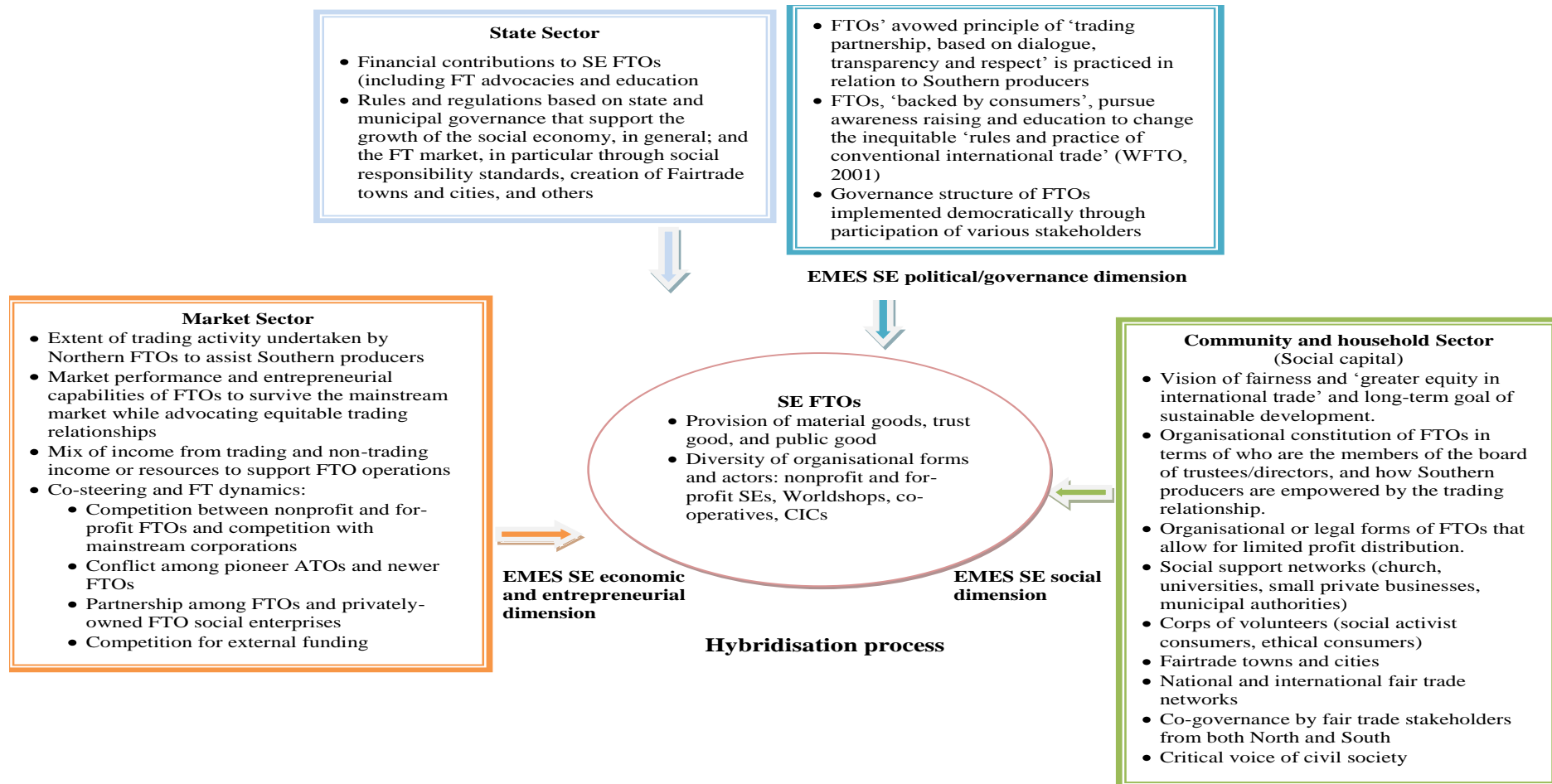
Given the multi-dimensionality and complex nature of the social economy and the organisations comprising it, synthesising the literature proved challenging. Nevertheless, by outlining the major discourses and debates, it was hoped that the syntheses of the conceptual approaches were sufficient in explaining the Philippine social economy and the experiences of the SEOs in the two case study groups. To reiterate, the overarching purpose of this study was to develop an in-depth understanding of the social economy in the Philippines and its contribution to deepening economic democracy and promoting sustainable social development. Sorting through the various competing approaches, the European understandings of the social economy were assessed to be appropriate to a study of this nature.

Although the literature reported ongoing debates and continuing search for a unified conceptual approach, commentators believe that this provides the space and opportunity to be entrepreneurial, that is, to be 'creative' academically and not to be straitjacketed by the language of business and economics (Barraket & Collyer, 2009; Gray et al., 2003; Pozen, 2008; Steyaert & Hjorth, 2006). Since the EMES SE concept, which is anchored on the plural economy approach, is gaining adherents internationally (Hart et al., 2010; Van Til, 2009; Young, 2012), it could be a first step towards a unifying theory that strengthens the social vision of the social economy and the social

enterprise as an organisation pursuing economic democracy as well as environmental and financial sustainability.

The renewed call for cross-sectoral networking, coordination and solidarity among families of SEOs and researchers is a recent development not seen in earlier discussions. Hence, these countervailing actions could help shift the discourse away from heroic individual social entrepreneurs and the use of business language favoured by competing interest groups. Re-casting the conversation back to civil society and political economy would also help re-sharpen the critical edge of the social economy and social enterprise. The discussion of the Philippine civil society in the next chapter provides an apt example of just how heavily interwoven the contemporary Philippine social enterprise narrative is with the discourse of ‘civil society’.

Figure 3.6: Synthesis of theoretical frameworks used for SE FTOs



Adapted from Becchetti Huybrechts (2007), Evers (2008) and Huybrechts and Defourny (2008)

Chapter 4

Philippine civil society

Any ahistorical, non-political reading of Philippine civil society, and there are some, presents only half the story. Chapter 4 recounts how authors have written about the emergence of Philippine civil society, the context in which its social economy emerged, from a social origins, political economy and social movement perspective (Constantino-David, 1997; Coronel Ferrer, 1997). It attempts a re-reading of the evolution of Philippine civil society from a socioeconomic and cultural perspective to generate a more complete picture and seeks to demonstrate just how heavily interwoven the contemporary Philippine social enterprise narrative is with the discourse of 'civil society'. Hence this historical-political re-reading of the evolution of Philippine civil society from pre-history to the ousting of the Marcos dictatorship in February 1986 attempts to capture the social, political, cultural and economic factors that led to the emergence of a 'proper' social economy during the Cory Aquino administration.

Emergence of Philippine civil society

Pre-Spanish period

There are several theories about the prehistoric beginnings of the Filipino people. One of the first and most enduring is the migration wave theory propounded by American archaeologist Henry Otley Beyer. According to this theory, waves of migration occurred during the prehistoric age among peoples crossing land bridges that connected the Asian continent (Woods, 2005). When the land bridges disappeared, migrants crossed the seas using wooden boats called *balangay* or *barangay* (Corpuz, 1997) that landed in various Philippine islands. Although the claim is contentious, each wave of migrants was supposed to have displaced older groups with their 'superior culture and technology' (Woods, 2005, p. 7). Commentators argue that this claim, propagated by colonisers and some historians, may have been the basis for Filipinos' tendency to denigrate the old and contemporary in favour of the new and foreign. Popularly labelled a 'colonial mentality' (Constantino, 1984), this tendency persists and is one of the myriad issues civil society actors are trying to undo. On the other hand, the 'core population theory' advanced by F. Landa Jocano (1975) theorises that early inhabitants of Southeast Asian countries originated from the same ethnic

group that branched out into different ethno-linguistic families as they migrated over time across Asia and Polynesia. According to this theory, early humans were already settled in the country before these migrations took place. Hence, neither Filipino nor Indonesian nor Malay is superior culturally and genetically. A study by Leeds University researchers, based on DNA samples of Austronesian-speaking ethnic groups, appears to support Jocano's claim of a common ancestry (Soares et al., 2011).

Historians agree that prior to Spanish colonisation in 1565, the indigenous *barangays* in the Philippine islands had a simple socioeconomic system that was appropriate for the small, self-contained communities settled near lakes and rivers (Constantino, 1984; Corpuz, 1997). Corpuz (1997) writes that, since the organising principle in each community was kinship, a *barangay* could have from twelve to fifty inhabitants who identified themselves through the name of the boat that had carried them to the islands. Hence, the word *barangay*, which originally meant seafaring vessel, evolved to mean village or community.

While some historians argue that the Philippines was part of an active trading network in the region (Woods, 2005), Corpuz (1997) claims that the country was not drawn to the vibrant Southeast Asian trade route. Thus, it was not influenced by the traditions of Hinduism, Buddhism and Islam, except for the outlying islands in the south where barter trade with the Chinese, Arabs and Indians had been established. Islam took root in these islands and the disparate indigenous communities in Sulu and Maguindanao were consolidated into a sultanate. While there were small independent kingdoms in Luzon and the Visayas islands, the *barangay* socioeconomic system remained the prevailing form of social organisation. The head of the *barangay* was called *datu* and leadership was passed on to family members. Each family in a *barangay* owned a piece of land, which their male and female offspring could inherit since tradition and custom vested ownership in the family (Corpuz, 1997). Unlike the Mindanao sultanate, the small and scattered indigenous communities in Luzon and the Visayas were easily subjugated by Spanish conquistadores (Constantino, 1984; Corpuz, 1997).

Social interaction in the *barangay* was characterised by solidarity, mutuality and reciprocity associated with a *Gemeinschaft* – community-based – society (Abueva, 1976; Hunt in Cariño & Fernan III, 2002; Covar in Guerrero, 2010; Silliman & Garner Noble, 2002a). These *Gemeinschaft* values and norms were embodied in the dialects of various sociolinguistic groups that survived. With about 80 major languages and more than 500 dialects spoken in the country (National Commission for Culture and the Arts, n.d.), it is not surprising that these traditional values and norms continue to define Philippine social interaction, despite three and a half centuries of Western colonisation and enculturation.

Spanish colonisation 1565–1896

Spain consolidated the indigenous communities into towns known as *pueblos*-parishes under civil and church administration (Corpuz, 1997). The inhabitants cultivated, but did not own, small fields and the *datu* was delegated to collect rent or tributes for the Spanish king. Spanish friars, religious organisations and lay Spaniards were awarded ownership of extensive tracts of land in private agricultural estates or *haciendas*. In the early years of colonisation, agricultural production in the *pueblos* was limited to local consumption, while friar *haciendas* were farmed much later. Rice was the main crop cultivated in the *pueblos*. The *pueblo*-parish structure was a socioeconomic and political system designed to produce surpluses for landowners, to extract labour and to transform the indigenous inhabitants into servile subjects through Catholicism rather than to assimilate them into the dominant Spanish culture (Corpuz, 1997). Spanish colonisers employed this form of social organisation to destroy traditional kinship-based alliances so as to entrench colonial rule (Guerrero, 2010). Beyond the *pueblo*-parish, in rural and highland communities that the Spanish could not completely colonise, traditional ways of life endured. Until the 1700s, the major economic activity was the annual galleon trade between Manila and Acapulco in Mexico. In order to protect their trading status, Chinese traders converted to Christianity and assimilated through marriage with the children of *pueblo* families. Corpuz (1997) claims that the Philippine domestic trade was dominated by two sectors: one legitimate and the other prohibited by law. The legitimate domestic traders were the Chinese and lay Spanish *encomenderos* who were awardees of the king's *encomienda*. This feudal system enabled lay Spaniards to collect tributes or taxes on behalf of the Spanish crown from indigenous inhabitants living in the *encomienda*. The illegal traders were government officials and friars, who captured a bigger slice of domestic trade. A few enterprising Spaniards tried to establish manufacturing industries, but were thwarted by friars afraid of losing the souls of the indigenous inhabitants and their tributes (Corpuz, 1997). With the emergence of new European powers, Spanish officials were eventually forced to modernise the economy, with grave consequences. The Spanish government in Manila instituted a number of reforms, among them opening up trade to other countries. Members of *pueblo* families, who held minor offices, and Chinese *mestizos* took advantage of incentives offered by the government to supply the British and American agricultural trading houses founded in Manila in the 1820s (Corpuz, 1997). Without an industrial base, the opening up of agriculture to world trade split 'the society and economy into the poverty sector of subsistence farmers and the rich class of the landed gentry' (Corpuz, 1997, p. 139). Enterprising *pueblo* families were able to enlarge their landholdings through usurious lending activities to other *pueblo* families, who used their land as collateral. Friar *haciendas* also contributed to the swelling of

the dispossessed through continued land grabbing and usurpation. Many of the landless *pueblo* families became tenant sharecroppers for money-lending families or friar-owned *haciendas* (Corpuz, 1997).

Civic associations and the Philippine Revolution of 1896

The abuses committed by the Spaniards against the indigenous inhabitants did not go unchallenged. Sporadic peasant revolts erupted and some resistance took the form of anti-clerical millenarian movements (Bauzon, 1998; Reyes Churchill, n.d.). Bauzon (1998) claims that more than one hundred major revolts, at the rate of one every three years, occurred during Spain's 350 years of colonisation. The *cofradías*, the only licit associations for much of the Spanish period, were the seedbed for many of these insurrections (Cariño & Fernan III, 2002). However, it was only in the waning years of the Spanish Empire that a nationalist sentiment arose (Dolan, 1991; Reyes Churchill, n.d.).

According to Ambrosio (1998), the opening up of the economy to global trade and the increasing socioeconomic status of *pueblo* families and Chinese *mestizos*, particularly the *ilustrados* (educated sons of elite *pueblo* families who studied in Manila, Spain and the rest of Europe) fanned their desire for political power. *Plebeians* (the term used for workers and common people) became aware, too, of liberal European ideas through their interaction with *ilustrado* business owners and foreign nationals working in agricultural trading houses in Manila and other urban areas. Moreover, Filipino priests also clamoured for the secularisation of the Filipino clergy, a call that resonated with *plebeians* and *ilustrados* alike (Manila Cathedral, n.d.).

In January 1872, workers mutinied at an arsenal in Cavite to demand full payment of their wages. This provided Spanish friars with an excuse to falsely accuse three Filipino priests active in the secularisation movement of sedition (Manila Cathedral, n.d.). Historians believe that the hanging of GOMBURZA (Padre Mariano GOMEZ, Jose Apolonio BURgos and Jacinto ZAMora) in February 1872 sparked the beginning of the Filipino revolutionary movement (Reyes Churchill, n.d.). *Ilustrados* began writing about Spanish abuses in novels and other literary publications. Exiled *ilustrados* and students in Spain founded the Propaganda Movement in 1872 and lobbied the Spanish parliament for political and economic reforms. The Propaganda Movement's most visible and influential member was Jose Rizal, who was martyred on the eve of the Philippine Revolution in 1896. While in Europe, Rizal wrote two novels depicting friar abuses and inequities. Banned in the Philippines, his novels nevertheless found their way into the country. In 1892, he returned home and founded the *Liga Filipina* (Philippine League) to press for nonviolent change. Other returning *ilustrados* founded masonic lodges and *gremios* (local crafts unions and guilds) that may be described

as early forms of co-operatives (Sibal, 2001). The *plebeians* also organised workers through *gremios* purportedly for mutual medical and funeral assistance (Ambrosio, 1998). Among the *gremios* founded by workers and craftsmen were *Gremio de Escultores del Barrio Sta. Cruz* (Sculptors' Guild of Sta. Cruz Village), *Gremio de Obreros de Sampaloc* (Workers' Union of Sampaloc), *Gremio de Litografos* (Lithographers' Guild), *Gremio de Carpinteros* (Carpenters' Union), *Gremio de Telegrafos* (Telegraph Workers' Union) and *Gremio de Plateros* (Silversmiths' Guild) (Ambrosio, 1998, p. 119).

One of La Liga's adherents was the *plebeian* Andres Bonifacio, who cofounded the revolutionary KKK (*Kataas-taasan Kagalang-galang na Katipunan nang mga Anak ng Bayan* – Highest and Most Respectable Society of the Sons of the People), when Rizal was arrested and exiled shortly after founding La Liga. The KKK or *Katipunan* may be considered the first national grassroots membership organisation with an elaborate recruitment process patterned after Masonic rituals (Ross, 2009). The *Katipunan's* main objective was Philippine independence through revolutionary uprising. In order to support its cause, it established mutual aid societies in communities and opened a women's branch. It also actively recruited from the ranks of workers, peasants and *ilustrados*. The *Co-operativa Popular*, an agricultural co-operative founded in 1886 in Bicol province by Vicente Lukban, became a major supporter of the *Katipunan* by providing funds and military intelligence, and spreading revolutionary propaganda (M. Hall, 2009). The *ilustrados*, however, were divided over the issue of violent change. Despite his incarceration in Mindanao, Rizal did not endorse the movement. Still, *Katipunan* spread quickly and by 1896 had more than 30,000 members from different municipalities and provinces (Ross, 2009).

In 1896, the *Katipunan* waged the first anticolonial revolution in Asia and established the Filipino Republic in 1898. However, rather than surrender to the victorious Filipino revolutionaries, Spain 'surrendered' to the Americans in a mock battle in Manila Bay (Hewitt, 2009). Together with Cuba, Puerto Rico and other colonies it lost during the brief Spanish-American War, Spain sold the Philippines to the United States for USD20 million in the 1898 Treaty of Paris. Although the Filipino Republic lasted only a few years, its revolutionary leaders sought to found a modern and egalitarian society patterned after European liberal ideals (Corpuz, 1997). The United States government, however, put paid to their aspirations.

American colonisation 1900–1946

US president William McKinley presided over the US government's forcible annexation of the Philippines as if mandated by God (Brewer, 2009; Harris, 2011). Drawing on the philosophy of 'Manifest Destiny' popularised by John O'Sullivan in 1845 and from Rudyard Kipling's admonition in his poem *The White Man's Burden*, the USA couched its imperialist designs with the discourse of

Christianisation, civilisation and prosperity for all (Brewer, 2009; Harris, 2011; Whitt, 2009a). But, according to Brewer (2009), McKinley conveniently forgot to tell the US public that the majority of Filipinos adhered to Roman Catholicism and that the country had a university predating Harvard by 25 years. Finding the Filipinos intensely resistant to a new colonial master, however, the US insular government quickly combined its 'benevolent assimilation' policy with a brutal military strategy to pacify the islands (Tucker, 2009). It also perfected the art of 'divide and conquer', which the Spaniards had employed, pitting one ethnic tribe against another, to secure political and economic power (Tucker, 2009).

The USA's insular government established public schools, state colleges and universities nationwide and taught Filipinos the English language in an attempt to differentiate the USA from the prior Spanish colonial masters. It also introduced the concept of separation of church and state to weaken the anti-clerical sentiments against the Roman Catholic Church and its influence on civil authorities (Cariño & Fernan III, 2002). Faced with a new and more powerful foreign enemy, the *ilustrado* class was divided. A number collaborated with the new colonial rulers and held government posts in the Philippine Commission created in 1901. Others, however, continued their support for General Emilio Aguinaldo, who had taken over the leadership of *Katipunan*, in the fight for Philippine independence. Although Aguinaldo was arrested in 1901, armed insurrections continued until pacification of the islands was achieved in 1913 (Corpuz, 1997).

While the US government styled itself as a benevolent and modernising colonial ruler, in reality, it was working against Philippine political and economic interests. According to Corpuz (1997), the principal agenda of the US government was to expand American trade in the Philippines by transforming it into a market for US exports and a supplier of cheap raw materials, such as tobacco, sugar, copra and minerals to US industries. In addition, the country would provide the USA a strategic location to reach other lucrative Asian markets, especially China. On the eve of annexation, McKinley himself stated:

We have pretty much everything in this country to make it happy. We have good money, we have ample revenues, we have unquestioned national credit; but we want new markets, and as trade follows the flag, it looks very much as if we were going to have new markets (McKinley as quoted in Brewer, 2009, p. 26).

The US insular government in Manila succeeded in opening the Philippine market through various trade treaties advantageous to the USA. By promoting the 'economy of special relations' (Corpuz, 1997, p. 219), it tied the Philippines to the vagaries of the world economy with its fortunes hinged on the US, in particular. It also effectively sealed the 'dual' character of the

Philippine economy and society perpetuating the underdevelopment of the domestic manufacturing and industrial sector and the neglect of the traditional economy in favour of the economy of special relations. Even when it was dismantled in 1934, the orientation of the economy to the American market was complete as ‘to virtually determine production, wages, standard of living, and import purchasing power’ (Corpuz, 1997, p. 261).

Because of this economic policy, the issues that fuelled the Philippine revolution against Spain persisted. Although the US colonial government initiated a land distribution scheme to benefit some two to four hundred thousand ‘squatters,’ many could not afford the high price levied (Corpuz, 1997). The Friar Lands Act of 1904 enabled the USA to buy 158,676 hectares of friar lands at exorbitant prices (PhP70 per hectare) that sharecroppers and landless tenants could not afford, when rich *pueblo* families could buy non-friar *hacienda* lands at PhP10 per hectare and amass large estates for cash crop cultivation (Corpuz, 1997). *Cacique* (land owners) colonial officials also ensured that their interests were protected by enacting laws to maintain the status quo (Lara Jr. & Morales Jr., 1990). Hence, the feudal relations between landless peasants and *pueblo* landowners remained unchanged. The neglect of the rice subsector invariably led to recurring rice shortages, rice importation to depress prices and rural unrest (Corpuz, 1997).

‘Americanisation’ and the Protestant mission

The US insular government introduced the concept of the separation of church and state. However, this seemed to be more honoured in the breach than in the observance. US commentators write that America’s annexation of the Philippines was permeated with 19th century Protestant religious, racial and socioeconomic values (Brewer, 2009; Harris, 2011; Whitt, 2009a, 2009b). According to Whitt (2009b), McKinley’s address in 1899 to the General Mission Committee of the Methodist Episcopal Church ‘clearly emphasised the extent to which missionary and political objectives converged’ (p. 408). Tracing the philosophical and historical roots that led to the conflation of Protestant values with American republicanism and free trade, Harris (2011) demonstrates how these powerfully moulded Americans’ image of themselves and their role in the world. Hence, Protestant missionaries and teachers flocked to the Philippines as civilising agents to supplant the Roman Catholic Church and convert their ‘little brown brothers’ into the image of white Protestant America (Harris, 2011). In particular, they wanted the Filipinos to learn ‘American values and behaviour’ (p. 53) that safeguarded the practice of free trade, the ultimate hallmark of Protestant superiority over Catholicism, namely self-reliance, honesty, honour, orderliness, cleanliness, thrift, self-control, responsible citizenship, industry, introspection, and rationality (Harris, 2011).

It may have seemed providential to American missionaries to include orderliness and cleanliness in their social construction mission. Under Spanish rule, Philippine hygiene and sanitation was extremely poor and hospitals were few (Cariño & Fernan III, 2002; Murillo, 1944). There was also no government agency to administer public health and social welfare. Religious orders operated the few hospitals and other charities but lacked the scientific knowledge to combat the preventable diseases that plagued the people (Murillo, 1944). Hence, schools, hospitals and sanatoria were among the first establishments founded by American Protestant congregations. They also fanned out into the ‘un-churched’ countryside of Luzon and Mindanao that had resisted Spanish colonisation (Episcopal Church in the Philippines, n.d.-a, n.p.) for their social construction project through proselytisation and co-operative building (Sibal, 2001). Protestant missionaries, who worked as volunteers, teachers, or soldiers also brought with them Anglo-Saxon civic clubs and associations that espoused these avowed Protestant values. Table 4.1 shows some of the American colonial-era civic associations transplanted to the Philippines.

Laws governing organisations

The US insular government quickly adopted US administrative codes and laws to run their new colony efficiently and effectively. Statutes governing corporations and civic organisations were enacted. Act Number 1189 or ‘The Internal Revenue Law of 1904’ exempted civic associations, associations dependent on charity, charitable, educational, and religious organisations, and paid or unpaid professionals working in these organisations from paying taxes. In 1906, ‘The Corporation Law’ or Act Number 1459 introduced the concepts ‘stock’ and ‘non-stock’ corporation for the first time.

Stock corporations included all types of commercial corporations, such as manufacturing firms, banks, insurance companies, trust corporations and railway corporations, while non-stock corporations included religious orders and societies, such as religious-owned hospitals and orphanages, building and loan corporations, educational institutes, and public corporations. The law also spelled out the duties and responsibilities of the board, membership and governance for each type of non-stock corporation. Hence, as regards religion, the government effectively put religious orders under secular rule. The insular government further revised and consolidated the laws relating to internal revenue under Act Number 2339 or The Internal Revenue Law of 1914 thus introducing additional tax exemptions, such as non-payment of documentary stamps and income earned from insurance premiums and interests from savings, to mutual associations and their members.

Table 4.1: Anglo-Saxon civic clubs and associations introduced in the Philippines

Values espoused	Original Name of Organisation	Year Founded	Current Name
Charity/ health	Philippine Band of Mercy	1899	Philippine Band of Mercy (PBM, n.d.)
	American National Red Cross	1905	Chartered in 1946 as Philippine Red Cross (PRC, n.d.)
	Philippine Islands Anti-Tuberculosis Society	1910	Philippine Tuberculosis Society Inc. (PTSI, n.d.)
	Insular Psychopathic Hospital	1925	National Mental Hospital and now National Centre for Mental Health (NCMH, n.d.)
Animal protection	Society for the Prevention of Cruelty to Animals	1905	Philippine Society for Prevention of Cruelty to Animals (PSPCA, n.d.)
Love of God and country, autonomy (Mechling, 2010; Proctor, 2009)	Young Men's Christian Association	1907	YMCA of Manila (Young Men's Christian Association, n.d.)
	Scouting introduced as early as 1910. First recorded name Lorillard Spencer Troop (Boy Scouts of America)	1910 1917	Chartered in 1936 as Boy Scouts of the Philippines (BSP, n.d.)
	Lone Girl Scouts registered with Girl Scouts of America	1917	Chartered in 1940 as Girl Scouts of the Philippines (GSP, n.d.)
	Philippine Amateur Athletic Federation	1911	Philippine Olympic Committee (POC, n.d.)
Business	American Chamber of Commerce of the Philippine Islands (ACCPI)	1920	American Chamber of Commerce of the Philippines Inc. (Solis, n.d.)
Motoring service	Philippine Motor Association	1931	Automobile Association Philippines (AAP, n.d.)
Scientific and rational thinking	American Medical Society/Manila Medical Society	1902	Philippine Medical Association (Cariño & Fernan III, 2002)
	4-H Club	1934	4-H Club (Yanga, n.d.)

At the end of 1935, the US insular government turned over administration of the country to the Philippine Commonwealth government in preparation for the country's eventual independence in 1946. One of the earliest laws enacted by the fledgling government was the Commonwealth Act Number 213 of 1936. Under the guise of 'defining and regulating labour organisations', the law sought to stifle militant labour organisations. The law also strengthened earlier insular statutes that transformed the centuries-old feudal relationship between tenant and landlord to a simple economic exchange between agricultural worker and employer. The Commonwealth government further revised and amended the existing internal revenue law. An analysis of Commonwealth Act 466 of 1939 demonstrates that the American insular government had laid down the US nonprofit model for the Philippine social welfare system. The list of tax exempt organisations under Section 27 of Commonwealth Act 466 reads almost like the present-day US Internal Revenue Service's nonprofit organisation classification system in Table 2.4 (pp. 47-48).

Public charter for private civic associations

A further analysis of laws enacted during the American colonial period – from 1899 to 1935 and during the Commonwealth period from 1935 to 1946 – shows a blurring of boundaries between state and private civic associations. A number of foundations and civic associations were organised through government fiat, including their funding for public health and welfare provision. Perhaps it was expediency that led to this development, since there was no public welfare agency during the first 15 years of American rule (Murillo, 1944). Undoubtedly, to be internationally recognised, a few of these civic associations required public charter, such as the American Red Cross, while this was not universally applied, except in exceptional circumstances, such as the Philippine Society for the Prevention of Cruelty Against Animals, which was chartered by the insular government, presumably because the founder was the daughter of the Governor-General at the time (Philippine Society for Prevention of Cruelty to Animals, n.d.). The Society was given police powers and fines collected were divided equally between the government and the association. In 1936, the Commonwealth government revoked its police powers ‘to correct a serious defect of the law’ (Philippine Society for Prevention of Cruelty to Animals, n.d., n.p.).

Philippine charities which were chartered at the start of American colonial rule, included the Philippine Islands Anti-Tuberculosis Society, Associated Charities of Manila, *Asociacion de Damas Filipinas* and National Federation of Women’s Clubs. These charities assisted the insular government in the provision of social services, such as settlement houses, orphanages, community health and sanitation services, and adult literacy programs, modelled on Western organisations (Murillo, 1944; National Federation of Women’s Clubs, n.d.; Roman, 2006). Similarly, chartered civic associations included the Boy Scouts of the Philippines (Commonwealth Act No. 111 of 1936), Girl Scouts of the Philippines (Commonwealth Act No. 542 of 1940) and the Philippine Amateur Athletic Federation (Philippine Olympic Committee, n.d.). Apart from receiving government funding, these chartered organisations enjoyed, and continue to enjoy, tax exemptions usually granted only to government agencies and corporations (Appendix A lists the extant laws that granted these private civic organisations quasi-government functions and privileges to raise revenues through gambling).

Political and grassroots organising

While the US colonial government enabled charitable civic organisations to flourish, it grudgingly allowed local groups to advocate for religious and economic reform (Cariño & Fernan III, 2002). Among the local organisations founded during this period was the *Iglesia Filipina Independiente* (Philippine Independent Church), which severed its ties to the Vatican in 1902. The *Iglesia Filipina*

Independiente allied itself with nationalist peasant and workers' movements. At the same time, surviving *Katipuneros* (members of the Katipunan) organised a number of trade unions in urban centres, beginning in 1901 (Ambrosio, 1998). In 1902, these trade unions consolidated into the *Union Obrera Democratica de Filipinas* – Democratic Trade Union of the Philippines (UODF), the first federation of workers' associations that served as a platform for militant labour organising. The UODF sought to improve the economic conditions of workers and landless peasants through legal action and political participation. However, the state banned its political party and incarcerated or killed its leaders (Alvero-Boncocan, 1998; Ambrosio, 1998). Hence, workers and peasants formed more radical organisations, such as the outlawed *Katipunan ng mga Anak-pawis ng Pilipinas* (Association of the Sons of the Sweat of the Philippine Islands). This later gave birth to the Bolshevik-inspired *Partido Komunista ng Pilipinas* (Communist Party of the Philippines) established in 1930 (Alvero-Boncocan, 1998; Ambrosio, 1998).

The masonic lodges founded by Filipino revolutionaries also continued to exist as humanistic societies (Couture, 2002). But, it seemed that American masons viewed Filipino freemasonry with suspicion, because it was 'bitterly anti-clerical, less tolerant, more intransigent and more militant than its American counterpart' (de Achutegui S.J. & M.A. Bernad, S.J. in Couture, 2002). President Roosevelt himself was said to have disapproved of the way in which Aguinaldo and his followers practised masonry in the Philippines.

Women's groups with a more political agenda than the charitable women's clubs also started organising during the early American period. The *Asociacion Feminista Filipina*, founded in June 1905, was believed to be the precursor of the Philippine women's liberation movement (Roman, 2006).

Countering peasant unrest through co-operatives

Unlike Western countries, the re-emergence of the Philippine co-operative movement during the American period was not a direct response of disenfranchised sectors to advance or protect their economic interest. In the Philippines, the state and religious groups used the movement to co-opt the working class and the peasantry. According to Sibal (2001), the US insular government and Protestant missionaries organised *Raiffeisen*-type rural agricultural co-operatives to quell rural unrest. Although the Protestant missionaries may have been motivated by reasons other than co-opting the citizenry, primary of which was the creation of an economic class of 'earners and spenders' (Harris, 2011, p. 47), they were more successful than the state because the co-operatives raised their own resources (Sibal, 2001).

The state initiated 11 major projects to jumpstart co-operative development in the country between 1907 and 1947 (D. V. Hart, 1955a). During this forty-year period, hundreds of millions of dollars were poured into providing cheap agricultural credit to farmers. However, with the exception of two projects, all else failed (D. V. Hart, 1955a). Although some attributed the failure of state-initiated co-operatives to government corruption and mismanagement, Hart (1955a) showed that other economic, sociocultural and political factors were also at work, *inter alia*, economic (resistance of landlords and Chinese merchants with vested economic interests, who wanted land ownership for their beneficiaries); sociocultural (lack of literacy among landless farmers and the tradition of 'debt of gratitude' prevented them from severing their feudal ties to wealthy landowners); and political (appointment of political protégés, political interference and top-down development approaches). Some of these factors continue to play out in the implementation of development projects for the poor to the present day.

Japanese interregnum, December 1941–1945

The Commonwealth government was in exile in the US during the Philippine occupation by the Japanese army. However, other elite members of Philippine society collaborated with the new foreign power during this brief period (Alvero-Boncocan, 1998). According to Sibal (2001), the Japanese-backed government organised and linked 5,000 consumer and producers' co-operatives to ensure food supply to Japanese forces in the Philippines and in other occupied Asian countries. All of these co-operatives, however, were abolished by the Americans after the Second World War.

Before the onset of the war, the outlawed *Partido Komunista ng Pilipinas* (PKP) organised a people's army against the Japanese called the *Hukbong Bayan Laban sa Hapon*, a ragtag peasant and workers' guerrilla group that proved effective against the Japanese army. At the same time, it also functioned as an alternative government by implementing radical social and economic reforms in Luzon (Alvero-Boncocan, 1998). Hence, it gained widespread support from the peasantry, awarded lands vacated by large landowners and fought side by side with American and government soldiers against the Japanese. Towards the end of 1945, however, this guerrilla group was progressively weakened by the US and its elite political allies to prevent PKP leaders from solidifying their political clout in an independent Philippine government.

Philippine Republic, 1946 to the present

The country's economy, and much of its infrastructure, was in a shambles after the war (Crossman, 1948). However, more than the Japanese invasion, the US inflicted far greater war damage while ferreting out the Japanese imperial army by carpet-bombing Manila in 1945, which levelled the

capital city to the ground (Olivares, n.d.; Shalom, 1980). As a result, the Philippines struggled to get back on its feet. In return for US war damage compensation and rehabilitation, the Roxas administration signed a grossly inequitable trade treaty with the USA (Cuaderno, 1956; Shalom, 1980). The Philippine Trade Act (also called the Bell Trade Act after its US sponsor) allowed tariff-free US goods to enter the country for 10 years but restricted Philippine agricultural exports to strict quotas. In addition, it pegged the *peso* on par with the US dollar and any change in the *peso*'s value was made subject to the approval of the US president. Furthermore, it granted parity rights to US citizens and corporations in exploiting the country's natural resources, which the 1935 Philippine Constitution had expressly limited to Filipinos. Hence, the Bell Trade Act needed constitutional ratification.

In order to secure acquiescence, the Tydings War Damage Act and Philippine Rehabilitation Act tied US war damage payments to the Bell Trade Act (Shalom, 1980). Only political subterfuge and manipulation employed by local elites and US government officials could ensure its approval (Shalom, 1980). For example, three PKP leaders, along with other oppositionists who secured seats in the House of Congress were suspended, purportedly for committing electoral fraud or violence. Consequently, they were unable to vote against the twin acts. The USA also turned a blind eye to the atrocities being committed by armed landlords and the military police against the peasantry in Central Luzon so as not to antagonise wealthy landowning politicians (Shalom, 1980).

Political and economic implications of the Bell Trade Act

The USA wasted an ideal opportunity to put an end to the socioeconomic and political structures impoverishing the majority of the Filipino people and, with its impending departure, could have transformed Philippine society 'along more egalitarian and democratic lines and independent of foreign domination' (Shalom, 1980, p. 500). Instead, it established a neo-colonial relationship with the Philippines to protect its economic and political hegemony in the Asia-Pacific region. In return for elite support, the USA helped perpetuate the country's underdevelopment and paid lip service to democratic processes. This has become the recurring pattern of Philippine-US relations (De Dios & Hutchcroft, 2006). Like the 'economy of special relations' established at the beginning of US colonialism, the Bell Trade Act stunted the development of local industry and manufacturing and made the country vulnerable to the vagaries of the world market for years to come. As one local economist put it:

In the strategic positions I have occupied and still occupy in our government in the postwar years, I have been able to observe the bad effects of the trade and currency provisions of the Bell Act on the Philippine economy. I have seen how the unlimited free entry of goods from the United States during the past six years has had a discouraging effect on our plan to industrialize our country, and as a result investment in the Philippines has shied away from industrial development to enjoy the more lucrative fields of trade, commerce, and real estate; how the trade resulting from the Executive Agreement under the Bell Act has been the source of the recurring balance of payments difficulties of the Philippines; and how the quota limitations on Philippine exports, without a corresponding limitation on imports from the United States, will intensify our balance of payments difficulties in the years to come (Cuaderno, 1952, p. 329).

Without a domestic industrial base, the economy was not able to generate employment for the growing population, further aggravating rural unrest and poverty. And, without a stable source of revenue, the continuing demand for imported luxury items by the country's elite wiped out the dollar reserves that were once a source of pride for US government officials (Crossman, 1948). In just three years after independence, most of the USD500 million to USD1 billion repatriated by the USA as war payments was plundered by the country's oligarchs to pay for tariff-free imported luxury consumer goods (Crossman, 1948; Cuaderno, 1952; De Dios & Hutchcroft, 2006). According to Golay (in De Dios & Hutchcroft, 2006), 'the Philippine state nearly collapsed' (p. 47). To raise revenue to support the war-ravaged populace, the government turned to a sure bet, gambling.

Institutionalisation of gambling for charity

Bankoff (1991) claims that, even before the Spanish colonised the islands, gambling was already endemic among Filipino males from all social classes. Although the Spanish viewed gambling as a vice and fought a losing battle against it throughout their long reign, 'financial expediency' (p. 279) eventually won. In January 1850, a Royal decree established *Loteria Nacional*, which held a monthly lottery and, in 1867, the Manila Jockey Club introduced horse racing. The Philippine Charity Sweepstakes Office claims that Spanish authorities partnered with private enterprises called *Empresa de Reales Loteria Espanolas de Filipinas* in holding the lottery (Philippine Charity Sweepstakes Office [PCSO], n.d.). Hence, by the time the new colonial rulers came, licensed gambling was already a lucrative source of revenue for the Spanish government.

Like the Spanish before them, the American insular government also banned gambling in the early years of colonisation. Act 1757 of 1907 outlawed gambling games, such as *monte*, *jueteng*, lottery and other games of chance. However, the Manila Jockey Club (n.d.) claims that the US insular government reintroduced betting in 1912. Again, like its predecessor, the insular government differentiated betting from gambling by making the former contingent on skills and the latter contingent on luck (Bankoff, 1991; Philippine Supreme Court, 1913a). The subtle distinction notwithstanding, court litigations showed that gambling proved intractable (Philippine Supreme Court, 1913a, 1913b, 1915, 1919, 1921) and insular authorities conceded that ‘it was better to make money from a practise they could not effectively prohibit’ (Bankoff, 1991, p. 281). Hence, once again, gambling was decriminalised for financial expediency.

The first phase of institutionalised gambling for charitable purposes began in the early 1930s when the state allowed horse racing for the benefit of the Philippine Amateur Athletic Federation (Philippine Charity Sweepstakes Office, n.d.). This is further evidenced by a number of laws, such as Acts 4130 and 4240, passed by the US insular government institutionalising gambling for charitable purposes (Philippine Charity Sweepstakes Office, n.d.). However, only civic associations that were chartered by the insular government, such as the Philippine Tuberculosis Society, were authorised to hold horse races for fundraising (see Appendix A). In his sixth state of the nation address in 1941, President Manuel L. Quezon reported that the PCSO had remitted the sum of PhP7.6 million over a six-year period or P1.3 million a year to charitable health and civic institutions and associations. In addition, it had distributed PhP939,102 to cities and provinces (Quezon, 1941).

At the onset of independence, the House of Congress routinely enacted laws granting civic organisations and religious charitable organisations a percentage of the funds raised by the PCSO (see Appendix A). In addition, private horse-racing clubs were authorised to hold their own races with certain percentages of the revenue allotted to charities. In 1954, through Republic Act No. 1169, PCSO was also allowed to introduce a lottery to further increase revenue collection. Whereas the practice of mandating the PCSO to hold lotteries for the benefit of civic associations depended on the whims of politicians, Marcos ended this practice in 1972, when he declared martial law and became the sole law-making authority. In 1979, a lame-duck parliament under the Marcos administration radically amended the charter of the PCSO through *Batas Pambansa Blg. 42* by appointing it as ‘the principal government agency for raising and providing funds for health programs, medical assistance and services and charities of national character’. This change gave sweeping powers to the PCSO board of directors making them solely responsible for determining beneficiaries and the frequency and types of gambling activity permissible. This resulted in the

increased frequency of horse racing, the introduction of new games and a levy of 10% on winnings to finance charitable activities.

Besides the PCSO, other government agencies were established or strengthened to regulate state-initiated gambling, such as the Philippine Racing Commission and the Games and Amusement Board. Moreover, through Presidential Decree No. 106A of 1977, another state-owned gaming corporation, the Philippine Amusement and Gaming Corporation was established for high-stakes gamblers and justified in terms of the need for additional sources of revenue for the poor. Thus successive Philippine governments made gambling a way of life for the majority of Filipinos, rich and poor alike, and changes through the years were designed to generate increasing revenue for private and government-provided health, housing, welfare and social services (Mangahas, 2010). Since religious charities were among gambling's beneficiaries, the Church is often placed in an ethical dilemma vis-à-vis the state. A recent controversy involving several Catholic bishops highlighted this ethical conundrum (Bernas, 2011a; Doyo, 2011a; Gutierrez, 2012). This is discussed further in Chapter 6.

Civil society during the post-war period

Religious charities and chartered civic associations reorganised after liberation to assist in relief and rehabilitation efforts. The US War Relief Services, the precursor to the US Catholic Relief Services, was established in 1945 for this reason. Private rather than public associations undertook most of the reconstruction since the state had not yet created an agency to implement an integrated public welfare program. This only began in 1951 when the functions of the Social Welfare Commission and the President's Action Committee for Social Amelioration were merged into the Social Welfare Administration. It took the state almost two decades to create a social welfare agency with Cabinet rank. Thus, provision of relief and rehabilitation services to communities affected by the war and by the resumption of a communist-led Huk rebellion in Luzon also became the responsibility of religious charities and civic associations. Under the Emergency Control Administration of 1945, state-formed co-operatives assisted in the distribution of scarce commodities and, by 1948, there were 1,300 registered consumer and producer co-operatives with a total membership of 254,000 (D. V. Hart, 1955a; Sibal, 2001). However, many collapsed after funds intended for reconstruction were diverted to satisfy the elite's demand for luxury consumer goods.

Roman Catholic Church and the problem of social order

Given the complexity of Philippine society, the Roman Catholic Church knew that the charitable provision of basic services would not address the social ills besetting the country (Caritas, n.d.).

Hence, in 1947, the Institute on Social Order was founded at the Jesuit-run Ateneo de Manila University to help steer the Church's social action program (Cariño & Fernan III, 2002; Institute of Social Order, n.d.). The Church drew inspiration from two Vatican encyclicals in countering the emancipatory appeal of communism and the evils of unbridled capitalism – the *Rerum Novarum* or the *Encyclical of Pope Leo XIII on Capital and Labour* issued in 1891 in response to the rise of communism in Europe (Leo XIII, 1891) and the *Quadragesimo Anno Encyclical of Pope Pius XI on the reconstruction of the social order* (Pope Pius XI, 1931). These encyclicals provided the mandate for Church-initiated artisan and co-operative enterprises, mutual associations, self-help groups, trade unions, NGOs, basic Christian communities and social action centres. Hence, the Catholic Church began organising farmers and workers nationwide to rival radical peasant and labour groups (Constantino-David, 1997). Among the prominent Church-established organisations were the Jesuit-led Federation of Free Workers and Federation of Free Farmers, Catholic Charities, forerunner of CARITAS Manila, and co-operatives that became leaders in the Philippine co-operative movement (Sibal, 2001). Protestant churches likewise 'committed themselves to a common comprehensive social action program for their followers' (Cariño & Fernan III, 2002, p. 43).

Era of community development and modernisation

The country achieved relative peace after the defeat of the Huk rebellion in 1953. This freed the Magsaysay administration (1954–1957) to pursue its two-pronged 'rural improvement program' to modernise Philippine society in earnest (Wurfel, 1958a). The program followed the community development framework promoted by the USA and the United Nations (UN). It was designed to weaken socialist liberation movements after the war by changing traditional mindsets through grassroots participation in community extension projects, and to effect radical economic, social and political transformation through agrarian reform (Magsaysay, 1955; Mayo, 1958; Sharp, 1953; Wurfel, 1959). Among other things, this social reform program saw the emergence of a modernising middle class, fostered by government through laws protecting workers and government employees; land reform; the formation of modern farmer-entrepreneurs through the creation of co-operatives, credit assistance and grassroots community associations, and the adoption of new farm technology (Magsaysay, 1955; Wurfel, 1959). By strengthening these weak groups, a strong civil society could emerge to mount a democratic challenge to existing power blocs, including traditional landholding families, Chinese merchants, and corrupt politicians and government officials. The USA fully supported Magsaysay's rural improvement program by releasing the USD250 million assistance committed to the previous Garcia administration (Wurfel,

1959). It also provided technical assistance for the drafting and implementation of the reform program (Sharp, 1953; Wurfel, 1959).

Several government agencies were formed or restructured to implement the agrarian reform program, each with its own mandate and area of responsibility. Among these was the Agricultural Credit and Co-operative Financing Administration (ACCFA) created in 1952 to organise farmer co-operative marketing associations (FACOMAs), provide low cost credit, create an integrated marketing system and develop an agricultural industry on par with other industries (D. V. Hart, 1955a). With funding of USD50 million or PhP100 million, its first general manager formulated an ambitious five-year plan to achieve its objectives (see Table 4.2). The Social Welfare Administration was involved in the community development program, while agricultural technicians organised irrigators' associations and other agrarian reform groups.

Table 4.2: ACCFA five-year plan (1955–1959) and accomplishments

ACCFA's five-year plan	Accomplishments
300 independent co-operative marketing associations (FACOMAs) after five years giving 100,000 members access to systematic financing.	467 co-operative marketing associations organised with 271,000 farmer members in three years.
ACCFA capitalised at USD50mn or PhP100mn.	PhP142mn loaned out to 55,000 farmers for increased production; 65,000 farmers for purchase of work animals; and 15,000 farmers for acquisition of farm equipment.
30% of the distribution of agricultural products controlled by producer-managed co-operatives.	N/A
Output and/or average income of 100,000 farmers increased by 30%.	N/A
Greater number of storage facilities constructed, for example, in 1955, build 95 warehouses with a total storage capacity of 3,540,000 <i>cavans</i> .	N/A
	In 1957 the ACCFA financed the purchase of PhP30mn worth of fertilizer and invested PhP1.5mn in the development of the ramie program.
Source: Hart, D.V. (1955b)	Source: Garcia (1958)

Reform-minded academics and intellectuals also established organisations to assist in the rural improvement program. Cariño and Fernan III (2002) distinguished these organisations as the 'first proper NGOs' (p. 43), because they fit the Johns Hopkins structural-operational definition.

Among them were the organisations initiated by the Catholic Church, including the Philippine Rural Reconstruction Movement (PRRM) founded in 1952, and co-operatives organised in parishes and Catholic schools. The Federation of Free Farmers and PRRM worked closely with government agencies implementing the agrarian reform program in Central Luzon and Mindanao (Wurfel, 1958a, 1958b). Together with ACCFA, they organised FACOMAs and assisted land reform communities. With left-leaning worker and peasant organisations in retreat, the farmer's federation and rural reconstruction movement had an endless supply of landless tenants to assist in the reform program and they had the power to enlist them in the development effort (Wurfel, 1958b). They had direct access to Magsaysay making it easier to resolve farmers' concerns. However, their privileged access to the top ended when Magsaysay died in a plane crash in March 1957 leaving the future of the program in doubt (Wurfel, 1958a).

Civic associations and the expansion of PCSO operations

The 1950s was also the time when the PCSO was mandated to increase the frequency of sweepstakes and horse races to raise funds for various charities. In 1956, yet another law was passed to reintroduce the lottery, presumably to finance the community development program (see Appendix A). The decade saw the burgeoning of international professional and membership clubs in the Philippines, such as Lions Club, Rotary Club and Zonta International.

Unravelling of the rural improvement program

In his first state of the nation address in 1958, President Garcia (1958–1961) reported the accomplishments of the Magsaysay agrarian reform program, particularly of ACCFA (see Table 4.2). By his second year of office, however, he had stopped talking about its accomplishments, only its difficulties (Garcia, 1959). Although he continued the implementation of the community development program, the agrarian reform program lost momentum. This was not surprising considering the iron-grip hold of landowners in Congress who had sabotaged the land reform program of every administration through inaction, withholding funds and subverting watered-down laws for their own vested interests (D. V. Hart, 1955a, 1955b; Hutchcroft, 1989; Wurfel, 1958a, 1958b). ACCFA expanded its mandate to the purchase of graded Virginia tobacco, effectively bankrupting the agency (Garcia, 1959).

Under Magsaysay, too, the import-substitution and industrialisation (ISI) program, adopted in 1949 by the Quirino administration (1949–1953), continued as part of the US-initiated socioeconomic program to develop an enterprising class of Filipino industrialists (Hutchcroft, 1989). It required an import and exchange control regime to nurture domestic industries and stem

the outward flow of resources. Although Garcia strengthened the ISI program through his 'Filipino First' policy, he was immobilised by allegations of corruption (Hutchcroft, 1989). By 1960, he was forced to lift the controlled *peso*-dollar exchange regime set in place in 1949, thereby beginning the process of dismantling the import-substitution industrialisation and agrarian reform programs.

The ISI program's failure to develop strong national industries was due, in part, to the absence of a populist national movement which, ironically, the state and the US government had decimated (Hutchcroft, 1989). The modernising middle class that the government envisioned also did not materialise because domestic industries did not go 'deep' enough to generate a new class of workers and entrepreneurs. Most of the manufacturing industries established were in the 'finishing and assembling of imported semi-manufactures' (Golay, in Hutchcroft, 1989, p. 43) under license from US companies. In contrast with other countries that had implemented import-substitution industrialisation, the Magsaysay and Garcia administrations were not able to eliminate the traditional landholding elite as a social class. Instead, landholding elite families preserved their power by investing in manufacturing enterprises, in the process lessening the emergence of independent national entrepreneurs (Hutchcroft, 1989).

Also, Magsaysay's agrarian reform program was not comprehensive enough to dismantle the structural basis for social inequality (Constantino-David, 1997; Hutchcroft, 1989). In 'solving' the problem of landlessness in Luzon, the government simply relocated former Huk rebels and supporters to the island of Mindanao in the Southern Philippines. Although the decision appeased peasants from Luzon, it shifted the problem to Mindanao with the displacement of *Lumad* and *Moro* indigenous peoples (Constantino-David, 1997). While the Mindanao 'problem' did not enter national consciousness until years later, the displacement of indigenous peoples from their ancestral lands intensified the Christian-Muslim animosities fuelling the recurrent Moro separatist sentiments (Abubakar, 1997).

Marcos presidency (1966–1969)

In his first state of the nation address, Marcos (1966) declared that the country was in a 'state of crisis' and the government was bankrupt, sustained only by borrowings. The daily deficit was PhP2 million and state financial agencies that extended agricultural credit were on the verge of collapse. The Philippine National Bank was holding PhP408 million of agricultural loans that could not be collected, and industries were in distress. Marcos blamed fractious political infighting for damaging the country. In order to rebuild the economy, he proposed nationwide infrastructure development projects and reintroduced the community development program. He also declared a few provinces in Central Luzon as land reform communities under the 1963 Agricultural Land Reform Code.

Every year thereafter, Marcos reported on the accomplishments of the community development projects. For example in 1966:

- Increased community development projects by 150% and community participation by over 500% in a single year.
- Organised 25,000 community projects involving more than a million people.
- 18,000 self-help projects were undertaken by the people themselves using their own resources.
- Re-awakened the people's *bayanihan* (reciprocal assistance) spirit.

Towards the end of his first term, Marcos (1969) boasted that the community development program had achieved phenomenal success:

- Community development projects increased by 427% benefiting six million people.
- Government assistance to 128,158 self-help projects totalling PhP47.5 million, a marked contrast to the PhP13.3 million extended to 24,306 CD projects over Macapagal's four-year term.
- Private sector participation for the first time in community development projects, such as the Operations *Kasama* (buddy) low-cost housing project for rural areas, in partnership with the Archdiocese of Sorsogon, and the Lanao Special Operations, with the Asia Foundation and Mindanao State University.

His report on the progress of the land reform program, however, was less upbeat, citing lack of funds, Congress inaction and renewed hostility by a revitalised Communist Party of the Philippines in Central Luzon.

In 1970, Marcos was re-elected for a second term in one of the 'shameless' elections in the history of the Philippines (De Dios & Hutchcroft, 2006). Similar to his predecessor whom he accused of plundering government coffers, Marcos ensured his re-election by using government funds that precipitated a new balance of payments deficit and *peso* devaluation. In his state of the nation address in 1970, Marcos revealed the true nature of the community development program, which he had used for his re-election bid. Despite the rosy reports, Marcos admitted that the community development projects between 1966 and 1969 were 'demonstrative in nature and commonly serve as stop-gaps for the socioeconomic ills of communities. Mainly, they are for increased production and income, public improvements, improved health and sanitation, and for cultural and recreation purposes' (Marcos, 1970, n.p.). The government had spent PhP175.3 million on the community development program during this three-year period yet later analysis of his annual reports indicated that the bulk of spending was in his last year of office. Also, he reported

that, for every *peso* spent by the state, beneficiaries had contributed PhP2.69 in the form of 'cash, materials, labour, and project sites' (Marcos, 1970, n.p.). This meant that the poor either volunteered, or were enjoined to volunteer for, their communal projects, including spring development, water supply, feeder roads, and rice and corn mills. This self-help community development ethos has become standard, constituting poor beneficiaries' 'contribution' or 'stake' in development projects. In this instance, the poor's stake outstripped what the state had spent on community development projects for which it was responsible in the first place. Still, he hailed the community development program's accomplishment as ushering the 'emergence of the *barrio* folk' (Marcos, 1970, n.p.). Whatever he meant by this, his *barrio* folk may have paled in comparison to a 'real' politically conscientised landless peasant or slumdweller from the *barrio*.

Rise of a politicised civil society

As in the developed world, the 1960s discontent with capitalism and anticolonial struggles in Vietnam and parts of Africa led to the emergence of politicised social movements in the Philippines (Constantino-David, 1997). Students and intellectuals familiar with anti-imperialist and anticolonial discourses started organising in Manila's universities and slums (Sison, 2009). A reconstituted Communist Party of the Philippines adhering to a Marxist-Leninist-Maoist ideology was founded in December 1968 and, in March 1969, established the New People's Army in Central Luzon. The Second Vatican Council (1964) also signalled a shift from 'Christian formation of workers to a more general promotion of justice' (Gavin, 1997, p. 1). Inspired by Latin American bishops' adoption of the theology of liberation, the Church embarked on a 'liberationist' social apostolate for structural change (Gavin, 1997) and established social science research institutes, such as the Asian Social Institute (1962) and the Social Communications Centre (1965), renamed Communication Foundation for Asia in 1973, to help develop socially-responsible Christian leaders from all social strata. The multitude of voices that arose had dynamisms of their own:

Unlike the previous period when the lines were drawn quite neatly between the state and the dominant church on one hand and the communist movement on the other, the alliances and the enmities were not as clear-cut. The ruling elite was in disarray. All groups challenged state power and at the same time bitterly fought each other. This rivalry manifested itself, not only in the student movement but also in church institutions, labour federations and the peasant movement. In the Muslim south, Moro nationalism, engendered by years of neglect and discrimination, was also on the rise. Structural

determinants of poverty were no longer ignored; they were the centre of the debate (Constantino-David, 1997, p. 27).

Thus, with growing social unrest in the wings, Marcos proclaimed martial law in September 1972 and outlawed mass organisations and political parties, closed down the media and arrested thousands of so-called state enemies. He also deported foreign missionaries, whom he accused of supporting Marxism, and imposed authoritarian rule for political expediency to secure his family's growing economic fortune and to ensure that American ownership of land and natural resources, especially the sprawling US military bases in Central Luzon, would remain securely in American hands (Banerjee, 1979; De Dios & Hutchcroft, 2006; Wurfel, 1977). With the impending expiry of the Laurel-Langley Act (amending certain provisions of the Bell Act) after July 3, 1974, these prime properties, then estimated at USD2 billion, were in danger of being nationalised unless another treaty could be passed (Banerjee, 1979). However, the anticolonial backlash engendered by the use of the US military bases in the Vietnam War militated against it.

New Society Movement: Social reform redux (1972–February 1986)

One cultural justification for martial law was that American-style democracy was 'not viable in a country like the Philippines which lacked a substantial middle-class population' (Romulo, in Hunt, 1980, p. 110). During this period, more than half the population of 36.7 million was poor (National Statistics Office, n.d.). Although the government did not provide data as to what or who constituted the 'middle class', it contended that the country's problems, as in Magsaysay's term in office, were due to its absence. Instead of posting American advisors in his bureaucracy, Marcos employed Filipino technocrats trained in US business schools, such as Harvard. His 'New Society' program closely resembled Magsaysay's agrarian reform and import-substitution industrialisation program but without the intransigence of the traditional landholding economic elite. Thus, the social construction project that had begun in the 1900s to make Filipinos rational economic agents could finally be completed. But, the technocrats overlooked, at their peril, the 'values' held by the Marcos ruling family, the military and the crony capitalists that militated against their modernising project (De Dios & Hutchcroft, 2006; Wurfel, 1977; Yokoyama, 1990). In his appraisal, Hunt (1980) appeared to believe that Marcos's authoritarian project would transform Filipinos into individuals with 'autonomous personalities' (p. 121), who would put national welfare above family or clan interests. However, the traditional values of 'familism, personalism, and parochialism' (Abueva, in Abueva, 1976, p. 123) that Marcos sought to eliminate became more ingrained than ever before in the Filipino political psyche (Muñoz & Battulayan, in Abueva, 1976; Banerjee, 1979;

De Dios & Hutchcroft, 2006; Lara Jr. & Morales Jr., 1990; Sibal, 2001). And, as in the past, these values were tolerated as long as they did not endanger the geopolitical and economic hegemony of the USA (Banerjee, 1979).

Samahang Nayon (village association) co-operative development program

Through Presidential Decree No. 27, Marcos placed tenanted private agricultural lands planted with rice and corn under the agrarian reform program to the benefit of the one million rice and corn farmers. However, big agricultural plantations comprising 3.5 million landless farm workers and tenants cultivating traditional export crops, such as sugar, pineapples, bananas and coconut, were excluded. This vastly limited the program's scope and coverage (Department of Agrarian Reform, 2006) and heightened the dual character of the economy, where a commercial agricultural sector along with industry, and a mostly rural but also urban and informal non-commercial agricultural sector coexisted (Alayarna & Larson, 2004)

Under the heavy dictate of martial law, rice and corn farmers formed pre-co-operative village associations, called *Samahang Nayon* (SN), to qualify for agricultural credit. These village associations were compelled to form *Kilusang Bayan* – meaning co-operatives, such as co-operative rural banks, area marketing co-operatives and consumer co-operatives (Castillo, 2003). These co-operatives were to function as conduits for the *Masagana 99* and *Maisagana 99* credit program. ('Masagana' meaning abundant and '99' being the targeted number of *cavans* or sacks harvested per hectare). The village associations, however, did not only comprise agrarian reform beneficiaries (Overholt in Nawawi, 1982) with SN membership open to all individuals as long as they lived within the limits set for ownership: seven hectares of rice or corn land, 10 hectares of coconut land, or 24 hectares of sugar land. Overholt (in Nawawi, 1982) estimated that by the end of 1975, 60% of SN members were owners and non-farmers, while only 40% were tenants or ex-tenants.

Sibal (2001) writes that *Samahang Nayon* associations numbered 200,000 with a total membership of three million farmers at its peak. After 14 years, however, only 3% survived due to the agrarian reform program's lack of fit with the needs of farmer-beneficiaries and its top-down decision-making structure (Jensen, 1982; Sibal, 2001; Van Steenwyk, 1987). Hence, technocrats had difficulty implementing the program. Although it failed as a state-initiative, some SN co-operatives that had learned the business values necessary for effective development programs, including Lamac Multi-Purpose Co-operative, Sorosoro Ibaba Development Co-operative and SOCSARGEN Samahang Nayon Co-operative, succeeded (Jensen, 1982).

There were other types of state-initiated co-operatives, including the sugar planters and producers co-operative, electric co-operative, tobacco farmers co-operative, and transport co-

operative, but only the agricultural co-operatives were supervised by the Bureau of Co-operative Development (BCOD), with the rest left to relevant state agencies. Although most of the *Samahang Nayan* co-operatives had become inactive by 1986, some managed to survive, in particular, the electricity co-operatives and co-operative rural banks. Ultimately, the Philippine co-operative movement during the martial law period was fragmented and weakened by excessive government control (Van Steenwyk, 1987) and the agricultural development model was flawed due to its reliance on expensive technology promoted by external funders, such as the World Bank (Borras Jr., Carranza, Franco, & Manahan, 2009; Tadem, 1985). Although farm production increased, the high cost of fertilisers and pesticides offset farmers' gains. Hence, many small farmers and agrarian reform beneficiaries were unable to repay their debts to co-operatives and rural banks (Sibal, 2001; Tadem, 1985).

At the same time that the martial law government professed to release rice and corn farmers from the 'bondage of the soil' (Presidential Decree No. 27), in May 1973 Marcos issued Presidential Decree No. 194 lifting the 1961 ban on non-Filipino businesses' engagement in the rice and corn industry. Republic Act No. 3018 had been enacted in 1960 as part of the 'Filipino First' policy to curtail alien (mostly Chinese) control over this sector of the Philippine economy (D. V. Hart, 1955a). Without legal backing, rice and corn farmers' marketing co-operatives could not compete with merchant traders with well-organised marketing and information-sharing networks (Cook, 1959; Jensen, 1982). Though rice and corn traders had 65% control of the rice and corn farming business in the 1950s, this did not always translate to high profit (Hart, D.V., 1955b). Stiff competition limited their profit margins to 2.6% on average. Still, the industry back then generated an estimated USD50 million in profits (Hart, D. V., 1955a). Because Presidential Decree No. 194 allowed only two years for alien businesses to engage in the rice and corn industry, in 1975 Marcos granted Filipino citizenship to 2,802 aliens, with the majority of Chinese descent (see "*Presidential Decree No. 836 Granting citizenship to deserving aliens and for other purposes* (1975).").

Inventing citizen participation

Through presidential decrees the martial law government also attempted to create national citizens movements that would voice the concerns of the people. These included Presidential Decree No. 86 mandating the formation of citizens assemblies in all *barangays*; Presidential Decree No. 684 creating the *Kabataang Barangay*, a village youth organisation to represent youth issues in the *barangay*; and Presidential Decree No. 1191 creating the *Pambansang Katipunan ng Kabataang Barangay ng Pilipinas*, a national youth organisation headed by Marcos' eldest daughter. According to Nawawi (1982), these *barangay*-level organisations could have become real platforms for political

participation but subsequent decrees curtailed any possibility of this when they were integrated as administrative units of government. However, whether or not Marcos really intended them to be platforms for people's representation, they may also be seen as a means of channelling their discontent in a form that government could control or direct. Thus, rather than providing a real voice for citizens, they became conduits to legitimise martial rule (Abueva, 1976; Nawawi, 1982).

Transforming gambling into a state industry

Although the economy prospered in the first few years of martial law, this did not last long (Banerjee, 1979; De Dios & Hutchcroft, 2006; Neher, 1980). Social problems that characterised the 'old society', such as rampant government corruption, crime, lawlessness and poverty, reoccurred with increasing frequency (Abueva, 1976; Wurfel, 1977). With the economy in crisis, the government may have turned to the lucrative gambling industry again to generate additional revenue. An analysis of the presidential decrees issued during martial law (see Appendix A) shows that there were four significant laws issued between 1977 and 1983 related to the gaming or gambling industry. In January 1977, Presidential Decree No. 1067-A created the Philippine Amusements and Gaming Corporation (PAGCOR) purportedly for the government's nation-building program and to eliminate the 'evils' associated with illegal gambling. Several months thereafter, Presidential Decree No. 1157, issued in June 1977, levied a 10% tax on winnings in *jai alai* and horse racing, and also increased the government's share of the sweepstake's total prize fund. This decree rationalised the tax increase as an equitable revenue generation for government, as well as for 'moral and economic' purposes. When *Batas Pambansa Blg. 42* (Republic Act No. 42) transformed the Philippine Charity Sweepstakes Office in September 1979, the approving agency was transferred from the Office of the President to the Ministry of Human Settlements then headed by the President's wife, Imelda Marcos. With the former First Lady at the helm of the PCSO, a precedent was established for succeeding first spouses to chair the PCSO, thus politicising the agency (Legaspi, 2008) and paving the way for the use of state funds to support their favoured charities and organisations thereby enhancing their families' political standing (Doyo, 2011b).

In July 1983, Presidential Decree No. 1869 paved the way for private investment in PAGCOR, which attracted foreign gaming corporations and brought large-stakes players into the country. As a result, it generated PhP1.7 billion (AUD162.9mn) in gross revenue and contributed PhP956 million (AUD97.3mn) to government coffers in just five years. Furthermore, the 5% franchise tax brought in an additional PhP83 million (AUD8.4mn). It has since become the third largest source of state revenue, rivalling the state's tax agencies. It has generated gross revenue totalling PhP355.6 billion (AUD7.9bn approximately) over a 25-year period between 1986 and

2010 (PAGCOR, 2010). Additionally, the Office of the President receives 5% of PAGCOR's annual income for its discretionary Social Fund to use for charitable purposes or for pork barrel, i.e., the appropriation of government spending for localised projects secured solely or primarily to bring money to a political representative's district or, in this case, fund (Tordesillas, 2010). In 2010, for example, PhP1.6 billion (AUD35.6mn) was remitted to the President's Social Fund (PAGCOR, 2010).

Beginnings of an independent social economy

Following the declaration of martial law, the social movements splintered and radical organisations went underground, while other groups were co-opted or rendered inactive (Constantino-David, 1997; Lara Jr. & Morales Jr., 1990; Multiversity, n.d.). Organisations identified with the national democratic movement joined the Communist Party of the Philippines and the New People's Army, while those identified with social democracy also formed their own armed revolutionary group. The Church, including the Roman Catholic and Protestant churches, was not spared by the division that martial law wrought, with some commentators likening the schism in the Church to that in Philippine society generally (Aguilan, n.d.; Shoesmith, 1979; Youngblood, 1978), among radical religious, moderates and conservatives (Caritas, n.d.; Constantino-David, 1997). Although the Church adopted a stance of 'critical collaboration' with the martial law regime, it also provided a protective mantle to activists and opposition groups (Association of Major Religious Superiors of the Philippines [AMRSP], n.d.). Though the Church was the only civil institution strong enough to counter the state, Church personnel were not immune from state repression, while the martial law government employed a 'divide-and-rule' tactic to weaken resistance.

Moderate and conservative Church-affiliated organisations, such as Caritas Manila, the Bishops-Businessmen's Conference and other religious congregations, confined their response to the economic needs of the poor, basic social services delivery and spiritual guidance (Constantino-David, 1997). However, 'radical' organisations and church ministries, including the AMRSP, the National Secretariat for Social Action-Justice and Peace and the human rights, justice and peace commissions of the United Council of Churches in the Philippines, the National Council of Churches in the Philippines and the Philippine Independent Church, monitored and documented human rights violations and peace and justice issues. Prior to the imposition of martial law, these churches had established ecumenical councils that supported community organising of urban poor communities, indigenous groups and other marginalised sectors (Constantino-David, 1997; Multiversity, n.d.; Silliman & Garner Noble, 2002a). Church-run schools and universities 're-oriented' their curricula to 'conscientise' students on social justice issues (AMRSP, n.d.).

Although divided, Church activism helped nurture the emergence of a distinctive NGO sector beginning in the late 1970s. Despite continuing repression, grassroots organisations, fostered by ideological groups, emerged from the protective mantle of the Church (Constantino-David, 1997; Multiversity, n.d.). Prominent individuals from the Church, academia, business, professionals, and human rights activists established research institutes and advocacy groups along sectoral lines. For example, IBON Databank was founded in 1978 as an alternative economic research institute (IBON, n.d.). Using official data, IBON published the real state of the economy under the martial law regime. These organisations were registered legally as non-stock nonprofit corporations and became the springboard for the larger social movement that ousted the Marcos dictatorship (Coronel Ferrer, 1997; Silliman & Garner Noble, 2002).

As already mentioned, the 1950s signalled the Catholic Church's involvement in the temporal affairs of its followers. With Vatican II, co-operative building by Catholic missionaries from Europe and North America proceeded in earnest. Priests and nuns founded credit co-operatives in their respective parishes and schools in the frontier areas of Mindanao and the Visayas (Dumaguete Cathedral Credit Co-operative, n.d.; MASS-SPECC Co-operative Development Centre [MASS-SPECC], n.d.; ; San Dionisio Credit Co-operative, n.d.; VICTO National Co-operative Federation & Development Centre [VICTO], n.d.) and in urban poor communities in Manila (San Dionisio Credit Co-operative, n.d.). The Protestant churches also intensified credit union organising among their communities in Northern Luzon and Southern Mindanao (Episcopal Church in the Philippines, n.d.-a). In addition to the co-operatives founded in parishes and religious-owned schools, the Federation of Free Farmers' Co-operative was founded in 1966 to serve as the 'economic arm' of the Federation of Free Farmers and its members established autonomous consumer co-operatives in their respective villages.

By the 1970s, these church-initiated primary credit unions and co-operatives were thriving, while state-initiated agricultural co-operatives languished (Sibal, 2001; Van Steenwyk, 1987). These private co-operatives set up provincial-level co-operative federations that served as training centres for their members alongside government initiatives. The first provincial co-operative federations were established in Mindanao in 1966 (MASS-SPECC, n.d.), including *Misamis Oriental-Bukidnon-Camiguin* (MBC), a federation of co-operatives, and Southern Philippines Educational Co-operative Centre (SPECC). In 1970, the Visayas Co-operative Development Centre was established in Cebu to serve as the training centre for Church-initiated co-operatives in the Visayas islands (VICTO, n.d.). In 1971, MBC and SPECC co-founded the Co-operative Life Mutual Benefit Society (CLIMBS) as a mutual protection system for their members (CLIMBS, 2009).

When martial law was proclaimed in 1972, the provincial-level federations transformed into regional federations to protect themselves from government meddling and to speak as one voice for private co-operatives. For example, just before martial law, 11 provincial federations in Mindanao established the Mindanao Co-operative Alliance (MCA) to ‘articulate the views of the private voluntary sector on issues affecting co-operatives’ and serve as the ‘socio-political arm of the movement to protect the gains of the co-operatives’ (MASS-SPECC, n.d., n.p.). Following the declaration of martial law, MCA became a non-stock, nonprofit corporation and changed its name to Mindanao Alliance of Self-Help Societies (MASS) to avoid being integrated into the state-initiated co-operative movement. In 1977, these federations formed the National Association of Training Centres for Co-ops (NATCCO) to ‘coordinate the training and educational services for co-operatives at the national level’ and ‘to serve as the voice of co-ops belonging to the network’ (NATCCO, n.d., n.p.). In 1984, MASS and SPECC merged into MASS-SPECC to ‘maximise the organisational, financial, physical, and human resources of both institutions’ (MASS-SPECC, n.d., n.p.). Table 4.3 shows the development of federations by private co-operatives between 1966 and 1986. These private co-operatives flourished because they were managed by the middle class – priests, nuns, teachers, lawyers, accountants, and other professionals – in the locality (Sibal, 2001). However, state-initiated agricultural co-operatives also benefited from middle-class support, including government personnel and, in the case of *Samahang Nayan* co-operatives, technical assistance and coaching by US Peace Corps volunteers (Van Steenwyk, 1987).

Because the private co-operatives did not receive state support, they had to rely on member contributions and co-operation. As a result, the 19th century American Protestant ‘Christian’ values promulgated by missionaries and teachers to civilise Filipinos in their image, which inculcated values of honesty, thrift, trust, solidarity, self-reliance, autonomy and neighbourly concern or love, became more deeply ingrained in Philippine society. The co-operatives were not only economic enterprises but also basic Christian communities which tackled social justice issues (Picardal, 2011), though their interpretation of the teachings of Vatican II differed from those of liberation theologians (Nadeau, 2004). Perhaps it also helped that religious missionaries lived among the poor communities, providing parishioners an authority to trust, while their presence lent legitimacy to the parishioners’ enterprises and protected them from harassment from the NPA rebels and the military, with some exceptions (Lynch, 2009). By December 1986, co-operatives had a total membership of 3.2 million (2.6 million as members or consumers of electric co-operatives) and had combined assets worth PhP844.7 million (Van Steenwyk, 1987) in which privately-initiated co-operatives had a 33.2% share, while co-operative rural banks that received financial assistance from the ousted martial law regime owned 35.1%.

Philippine corporate social action

Even before the ‘corporate social responsibility’ discourse found an audience in developed countries, members of the Philippine private sector had established their own nonprofit foundations as a form of ‘corporate social action’ (Philippine Business for Social Progress [PBSP], n.d.). The PBSP was founded in 1970 by 50 business corporations that pledged ‘one percent of their companies’ net income before taxes to pursue poverty reduction programs’ (PBSP, n.d., n.p.) and the following year, the Bishops-Businessmen’s Conference for Human Development (BBC) was founded. It was a union of ‘men of the cloth and men and women of capital, who thought both Church and Business should play a role in transforming Philippine society’ (Bishops-Businessmen's Conference for Human Development, n.d., n.p.). Another business foundation established in 1973 was the Community Crafts Association of the Philippines (CCAP), which started as an export marketing arm of handicraft producers, including SAFRUDI (Case Study 1 in this study, see Chapter 5). Since then, CCAP has become one of the most successful fair trade social development NGOs (Community Crafts Association of the Philippines Inc., 2006).

Table 4.3: Private co-operative federations (1966–1986)

Federation	Area	Date founded
a. Provincial co-operative federations		
<i>Misamis Oriental-Bukidnon-Camiguin</i> Federation of Co-operatives (MBC)	Mindanao	1966
Southern Philippines Educational Co-operative Centre (SPECC)	Mindanao	1966
Southern Philippines Educational Co-operative Centre (SPECC)	Mindanao	1966
b. Regional co-operative training centres/federations		
Southern Philippines Educational Co-operative Centre (SPECC)	Mindanao	1966
Visayas co-operative Development Centre (VICTO)	Visayas	1970
Northern Luzon Co-operative Education & Development Centre (NORLUCEDEC)	Luzon	1975
Tagalog Co-operative Training and Education Centre (TAGCOTE)	Luzon	1976
Bicol Co-operative Training Centre (BCTC)	Luzon	N/A
MASS-SPECC merger	Mindanao	1984
c. National co-operative federations		
Philippine Credit Union League (PHILCUL) founded by 44 credit unions	Philippines	1960
National Association of Training Centres for Co-operatives (NATCCO) formed by the regional co-operative federations.	Philippines	1977
NATCCO became a multi-service national co-operative federation while regional training centres became multi-service co-operative development centres. The acronym NATCCO was retained but its name was changed to the National Confederation of Co-operatives.	Philippines	1986

Emergence of fair trade

Religious orders that implemented a more integrated Christian community development approach in rural and urban poor communities (Caritas, n.d.) may be considered forerunners of the fair trade

movement in the Philippines. Their development program usually integrated co-operative building with livelihood or income-generating projects, such as sewing, food processing, organic agricultural production, animal husbandry and handicraft production. Because of the limited local market, religious missionaries tapped into their congregations' networks in the major urban centres in the Philippines, Europe, Australia and North America to sell the handicrafts made by urban poor and rural communities. These religious organisations marketed the handicrafts as a form of solidarity with the poor. Among the first to do this were the:

- Social Action Foundation for Rural and Urban Development, Inc. founded in 1966 by Sister Juliaan Mullie, icm, a Belgian nun. SAFRUDI was supported by the ICM (*Immaculati Cordis Mariae*) and CICM (*Congregatio Immaculati Cordis Mariae*) congregations in Belgium and the Netherlands. It began with a modest sewing project by urban poor women in Manila and later expanded to other areas in the Philippines (SAFRUDI, 2006).
- PREDA Foundation (Peoples' Recovery Empowerment and Development Assistance Inc.) was established in 1974 in Olongapo, a former site of a US naval base. Together with two Filipinos, Father Shay Cullen, a Columbian priest founded PREDA to rescue young children and minors who had been sold as sex workers in the city's brothels. In 1975, PREDA founded Profairtrade Development Agency (PREDA), a fair trade organisation to help these young people earn an income through craft making. Father Cullen initially promoted PREDA handcrafted products and later, processed mango products in Ireland and other European countries (PREDA Foundation Inc., n.d.).
- *Alay Kapwa Gawang Kamay* – meaning handcrafted offering to one's fellow human being – was a co-operative founded in 1979 by the Religious of the Good Shepherd nuns. Sister Christine Tan helped develop the co-operative's marketing network with the support of RGS communities in the USA, Australia and New Zealand (Alay Kapwa, n.d.; Doyo, 2011b; Religious of the Good Shepherd, n.d.).

Flourishing of development-oriented NGOs

Political NGOs also organised co-operatives and income-generating projects in the early 1980s to avoid military harassment (Multiversity, n.d.). But, unlike the Church and business foundations, NGOs considered these activities secondary to their political work. The ousting of the Marcos dictatorship in February 1986, however, changed the political landscape of the country and many NGOs found their *raison d'etre* irrelevant. With a democratic government installed through a non-

violent political uprising, international donor agencies that supported these radical NGOs favoured economic development projects over research and advocacy. The restoration of democracy generated a great deal of goodwill and opened the floodgates for international giving. Hence, beginning in the late 1980s, a number of NGOs transformed themselves into development-oriented organisations and gave birth to the Philippine microfinance industry and alternative trade movement, while the co-operative sector also experienced a renaissance with the Marcos dictatorship gone.

Conclusion

This chapter has shown the extent to which Philippine civil society is rooted in civic-mindedness. Throughout history, oppressed groups have formed associations for mutual support and to stage revolutions. The state has had as much to do with the development of civil society as with leveraging against radical peasant associations and trade unions. First, through public education and the Protestant mission, the US colonial government transplanted values that promoted capitalist democracy and the ideology of free trade. Secondly, it set the precedent for blurring the boundary between the public and private sectors by chartering charities for the delivery of social welfare services. Because the economy was underdeveloped, the US insular government found financial expediency in state-sponsored gambling that was subsequently institutionalised by successive Philippine governments to finance social service delivery. However, it also cemented an awkward relationship between the Church and the state as regards the 'ethical' justification for the state-initiated gambling industry. While the US insular government promoted private charities, it also initiated the development of a Philippine co-operative movement to counter radical peasant groups and trade unions. However, because their development was not organic, these co-operative ventures failed to address the structural determinants of poverty and social injustice, and peasant revolts and militant trade union organising continued throughout the 1950s. Although the US government promoted an agrarian reform program patterned after the Japanese and Taiwanese models after WWII, this was too little, too late. The resettlement of landless peasants from Luzon to Mindanao only gave rise to a new class of dispossessed indigenous and Muslim communities that re-kindled Christian-Muslim animosities. The anticolonial struggles and global discontent with capitalism in the 1960s, however, led to a nationalist awakening that threatened the fractious ruling elite. This gave President Marcos an excuse, with tacit support from the USA, to declare martial law in 1972 and enabled him to continue the US social construction project of creating a modern middle class unimpeded by intransigent landowners. But, it only gave rise to a small middle class

sector because the values that the Filipino technocrats wanted to instill ran counter to the traditional and narrow familial values of martial law rulers and their supporters. And, as long as these values did not interfere with US interests, the New Society project was tolerated.

In parallel efforts with the state, the Philippine churches, particularly, foreign religious congregations, continued with their co-operative-building in parishes and schools. The Church also provided a protective mantle to activists and Church-affiliated organisations that kept nationalist sentiments and resistance to the Marcos dictatorship alive. Through the basic Christian communities organised by the Church, a nascent social economy sector arose in the mid-1970s comprising co-operatives, Christian solidarity trading groups and private business foundations. Independent research institutes and advocacy NGOs also emerged in the late 1970s, which galvanised the anti-dictatorship movement. With the restoration of democracy through the peaceful People Power revolution in February 1986, the space for the flourishing of social economy organisations opened.

Chapter 4 has provided the historical backdrop against which the Philippine social economy developed. Chapter 5 discusses the methodology of the study, before returning to the findings on the Philippine social economy in Chapter 6.

Chapter 5

Research methodology

This chapter describes the research design and approach employed in this study. It begins with a description of the purpose of the study, the research questions, the chosen research methods and appropriateness of combining secondary data analysis and case study methods in order to ensure the trustworthiness or validity of the data collected, before outlining the research process, the ethical issues involved and the scope, limitations and relevance of the study. Parts of the chapter are written in the first person to signal what Brewer and Descombe (in Johnstone, 2007) termed a ‘public account of the self’ (p. 113) within a study wherein the deep structures in Philippine society spawning social, political and economic inequalities are held at the forefront of the analysis. The study was also guided by my strong belief that human agency and collective action generate important mechanisms for social and economic transformation.

Purpose of the study

The overarching purpose of this study was to develop an in-depth understanding of the social economy in the Philippines and its contribution to deepening economic democracy and promoting sustainable social development. The study aimed to do this by utilising European understandings of the social economy through concepts such as the ‘plural economy’ or ‘tripolar approach to economy’, ‘hybridisation’, ‘fair trade as hybrid form of market’, and the ‘EMES SE’ approach. Since there had been no prior study applying such approaches to the Philippines social economy, a study of this nature was needed to provide internationally comparable data on the social economy in the Philippines.

Aims of the study

This study had several aims, to contribute to the growing body of empirical research on the social economy of the Philippines by developing:

1. A profile of Philippine social economy organisations (SEOs) in terms of the plural economy or tripolar framework and related explanatory concepts.

2. An understanding of the relationship between these SEOs and the nature and extent of their contribution to the social – and national – economy.
3. Knowledge of the day-to-day activities of these organisations and their impact on local communities.
4. Evidence-based information for policy makers to apply in formulating and implementing a supportive legal and regulatory framework for social enterprise development.

Research questions

Based on the above purpose and aims, the study asked two major research questions:

1. What is the nature of the Philippine social economy in general?
2. How do market and non-market social economy organisations operate in particular?

To answer the two major research questions, two sets of overarching research questions were formulated for the broad social economy and the two case studies (see below).

Research questions relating to the broad social economy:

1. What are the historical roots of the Philippine social economy and what discourses sit behind the construction of the Philippine social economy?
2. How is the social economy in the Philippines organised or structured?
3. Who are the most influential social actors in the social economy sector and how do they exert their influence?
4. What is the nature and extent of the social economy's contribution and how is this measured?
5. What legal and regulatory framework governs and supports the social economy?
6. What are the main challenges facing the Philippine social economy?

Research questions relating to the two case studies:

1. To what extent can the case studies be considered social enterprises?
2. To what extent can the case studies be considered fair trade organisations?
3. What are the economic, social and governance issues and challenges and how are these addressed?

Research questions relating to Case Study 1: SAFRUDI and CBE partners

1. What is the scope of SADRUDI's operations?
2. What is its main source of income?
3. Who are its key stakeholders?
4. What key partnerships strengthen its activities?
5. How many people or community-based enterprises benefit from its activities?
6. What benefits do they enjoy?
7. What organisations attached to SAFRUDI identified as social enterprises?
8. How is this identity translated into their vision, mission and goals (VMG)?
9. What are the strengths and weaknesses of SAFRUDI in deepening economic democracy and promoting sustainable social development?

Research questions relating to Case Study 2: NGOs

1. What social economy organisations identify as social enterprises and comprise the market-oriented subsector?
2. What does it mean to be a social enterprise?
3. How is this understanding of being a social enterprise translated into the VMG of social economy organisations?
4. What opportunities are available to social enterprises?

Table 5.1 (p. 141) shows where the findings relating to these research questions are discussed in the thesis.

Research design

This study employed a mixed-method research design (Creswell & Tashakkori, 2007) to allow for the collection and analysis of data from multiple sources and for triangulation of these methods in order to ensure the accuracy and trustworthiness of the data gathered. Several prior research studies had employed a mixed-methods design combining secondary data analysis and the case study approach in doing country or regional-level research on the social economy (see for example Borzaga & Defourny, 2001; Chaves & Monzón, 2007; Powell & Steinberg, 2006; Salamon et al., 1999). Hammersley (1996) referred to mixed-method research as 'methodological eclecticism' (p. 167), noting its potential to provide a holistic perspective on social phenomena. Other studies of

entrepreneurship referred to this as ‘methodological pluralism’ (Neergaard & Ullhøi, 2007, p. 4). Hence there were two aspects to the research design:

1. *Secondary data analysis* was the method used to develop a profile of the Philippine social economy discussed in Chapter 6. Two types of secondary data were gathered. The first type included data on civil society organisations that was labelled the NGO/civil society dataset, while the second comprised the socioeconomic indicators and poverty measurement dataset. The NGO/civil society dataset collected secondary dataset on active Philippine social enterprise organisations, i.e., those engaged in market-related activities. These data were organised into six datasets, namely, the church, co-operatives, government, microfinance industry, NGOs and business philanthropy (see Table 5.2 on p. 148). The data were mined for information on the following: vision, mission and goals (VMGs) of these organisations, the reach and scope of their operations, the nature of their economic contribution and the scope of activities using the major categories comprising the plural economy (discussed in Chapter 3): the public/state, private/market and community/household sectors, further divided into the market and non-market subsectors. The socioeconomic indicators and poverty measurement dataset collected data from government statistics agencies and private social science research institutes.

The NGO/civil society dataset and the socioeconomic indicators and poverty measurement dataset answered three research questions relating to the broad social economy. These are research question number 2 (i.e., structure of the Philippine social economy); research question number 3 (i.e., most influential social actors and how they exert their influence); and research question number 4 (i.e., nature and extent of the social economy’s contribution and how it is measured). These are discussed in Chapter 6 (see Table 5.1).

2. A *case study approach* was the method used to develop an in-depth understanding of SAFRUDI and its CBE partners (Case Study 1) and NGOs or CSOs engaged in market-related activities (Case Study 2).

Yin (2009) notes that secondary data analysis is most suited to research questions that ask who, what, where, how many and how much, while the case study method is better able to address questions of how and why.

Table 5.1: Research questions and findings

Research questions relating to the broad social economy are addressed in Chapter 6; the overarching research questions pertaining to the operations of market and non-market social economy organisations are addressed in Chapters 7, 8 and 9.		Research questions relating to Case Study 1: SAFRUDI and CBE partners addressed in Chapters 6, 7 and 8	Research questions relating to Case Study 2: NGOs and civil society organisations engaged in social enterprise addressed in Chapter 9
Question	Where addressed		
<ul style="list-style-type: none"> What are the historical roots of the Philippine social economy and what discourses sit behind the construction of the Philippine social economy? 	The evolution of the Philippine social economy is discussed in Chapter 4; while the discourses that sit behind the construction of the Philippine social economy is discussed in Chapter 6.	<ul style="list-style-type: none"> What is the scope of SAFRUDI's operations? What is its main source of income? Who are its key stakeholders? 	<ul style="list-style-type: none"> What social economy organisations identify as social enterprises and comprise the market-oriented subsector?
<ul style="list-style-type: none"> How is the social economy in the Philippines organised or structured? 	To answer this question, data on 3843 Philippine social economy organisations was sourced from six databases, namely, the church, co-operatives, government, microfinance industry, NGOs, and business philanthropy, because they are the major players that kept ongoing records of their activities. Information was collected and entered into an Excel spread sheet listing the name, vision, mission and goals (VMG being the acronym commonly used in the Philippines), network partners, major activities (as listed by the organisation concerned), region, scope of operation, and, following Bryman (2008), data source, URL address and date last visited. These data were then analysed using a keyword search. This analysis enabled the development of a profile of the Philippine social economy in terms of the EMES framework and an identification of the most influential actors/organisations.	<ul style="list-style-type: none"> What key partnerships strengthen its activities? How many people or community-based enterprises benefit from its activities? What benefits do they enjoy? 	<ul style="list-style-type: none"> What does it mean to be a social enterprise?
<ul style="list-style-type: none"> Who are the most influential social actors in the social economy sector and how do they exert their influence? 	For the broad social economy, this question is answered in Chapter 6.	<ul style="list-style-type: none"> What organisations attached to SAFRUDI identified as social enterprises? How is this identity translated into their vision, mission and goals? 	<ul style="list-style-type: none"> How is this understanding of being a 'social enterprise' translated into the VMG of social economy organisations?
<ul style="list-style-type: none"> What is the nature and extent of contribution of the social economy to Philippine society and how is this measured? 	This question is answered partly in Chapter 6 and through an analysis of the success of poverty alleviation and social reform programs and the role of SEOs in Chapter 10.	<ul style="list-style-type: none"> What are the strengths and weaknesses of SAFRUDI in deepening economic democracy and promoting sustainable social development? 	<ul style="list-style-type: none"> What are opportunities available to social enterprises?
<ul style="list-style-type: none"> What legal and regulatory framework governs and supports the social economy? 	The laws forming the legal and regulatory framework for the social economy are discussed in Chapter 6. Some CSOs interviewed are currently promoting a bill in Congress similar to the UK Community Interest Company or SE law and this is discussed in Chapter 10.		
<ul style="list-style-type: none"> What are the main challenges facing the Philippine social economy? 	These are discussed in Chapter 10.		

Secondary data analysis

Also referred to as archival research, secondary data analysis involves the analysis of data collected by someone other than the researcher (E. Smith, 2008). It involves the 're-analysis of data collected by another researcher or organisation, including the analysis of datasets collated from a variety of sources to create time series or area-based datasets' (Hakim, 1987, p. 20). Secondary data sources used in this study included internet-based archival records; government policies, reports and datasets; and organisational records and annual reports.

Hakim (1987) highlights the differences between secondary data analysis as a method of data collection and analysis and broader processes of research data collection and analysis which might involve a range of methods. Secondary data analysis is a particular method of data collection in which administrative records at various levels feature pivotally in the research design as primary sources of secondary data (Bryman, 2008; E. Smith, 2008). Secondary data includes qualitative data, such as photographs and interview or ethnographic transcripts (E. Smith, 2008) and quantitative data, such as statistics.

Some writers caution against the use of government records and statistical data because of their perceived bias (see for example debates in Bryman, 2008; E. Smith, 2008). However, social economy commentators see systems of national accounting as an ideal source of data from which to capture the economic contribution of the social economy (Barea & Monzón, 2006; Chaves & Monzón, 2007; Salamon, 2010). To ensure consistency of data collection, the United Nations (2003), as a key player in international development, has adopted the *Handbook on Nonprofit Institutions in the System of National Accounts* based on the Johns Hopkins nonprofit sector approach. Among developed countries, Australia appears to have been the first to adopt this approach, with some modifications to suit its national context (Australian Bureau of Statistics, 2009). Practitioner-oriented third sector research centres, such as the UK National Council for Voluntary Organisations (<http://www.ncvo-vol.org.uk/>) and the US National Centre for Charitable Statistics (<http://nccs.urban.org/>), source their data from various government agencies in addition to conducting their own surveys. These centres, in turn, provide some of their aggregated data on their websites, while in-depth sectoral data are either published or archived and made available for a fee. Official statistics and secondary quantitative data are central to research on the social economy.

As with most other research methods, secondary data analysis has its fair share of challenges (Hakim, 1987; Kiecolt & Nathan, 1985; E. Smith, 2008), however, Bryman (2008) believes its advantages far outweigh its limitations. The collection of data from internet-based datasets saves researchers precious time, money and effort and opens government records to public scrutiny.

Indeed, Bryman (2008) believes researchers have a responsibility to the general public to test governments' claims to transparency and public accountability. Social economy researchers can contribute to the public good by subjecting government, NGO and donor agency activities to empirical investigation.

However, secondary data analysis is heavily dependent on the quality of the data available (Kiecolt & Nathan, 1985; E. Smith, 2008). Data from studies where less than rigorous processes in sampling or inappropriate data gathering techniques have been used need to be excluded from secondary data analysis. Hence rigorous approaches are needed in choosing the data sources for secondary data analysis. Despite the perceived time-saving feature of secondary data analysis, compiling datasets from diverse sources became challenging and time-consuming because the datasets contained varying information, usually based on the need of the organisation compiling the dataset.

The datasets compiled to map the Philippine social economy were downloaded from government agencies, faith-based organisations and NGO websites. Since the datasets were organisational records of well-established agencies and organisations, it was assumed that the data were reliable. However, the database format had to be changed several times and necessitated re-encoding of protected files or those saved in a read-only portable document format (PDF). Thus secondary data analysis proved to be time-intensive to ensure the integrity of the data used in this study.

Case study approach

Though some authors distinguish between ethnography (Hammersley & Atkinson, 2007) and the qualitative case study approach (Yin, 2009), there seems to be a high degree of transportability between the two. Entrepreneurship and organisational research studied *in situ* often blends qualitative case study and ethnographic approaches (Brannen Yoko, 2011; Johnstone, 2007; Perren & Ram, 2004). Both refer to the object of study as a 'case' and refer to the gathering of data to compile the case as 'fieldwork' rather than data collection. Fieldwork usually involves a combination of participant observation, in-depth and semi-structured interviewing and focus group discussions. This is the sense in which the term is used in this study.

Although the practice of bracketing theory in ethnography is still adhered to by some sociologists, it is eschewed by others. Hammersley and Atkinson (2007) believe data collection should be flexible and unencumbered by theory but acknowledge that the final research report should be informed by conceptual discussions. Several sociologists argue that bracketing theory,

even at the beginning of fieldwork, is no longer tenable and call for stronger integration of theory (J. Katz, 2004; Snow, Morrill, & Anderson, 2003).

While there are several ethnographic approaches, such as ‘analytic ethnography’ (Lofland, 1996, in Snow et al., 2003), ‘extended case method’ (Burawoy, 1998), ‘institutional ethnography’ (E. Smith, 2008) and ‘organisational ethnography’ (Brannen Yoko, 2011; Eisenhardt, 2002), all have similarities with Yin’s (2009) case study approach. Yin (2009) saw the case study approach as suited to situations where there was a blurring of boundaries between context and phenomenon. While the Philippine social economy was the *phenomenon* under study, broader national policy, political dynamics, social structures and economic factors formed the *context* in which the *case study* of particular organisations took place. Yin (2009, pp. 46–47) defined four types of case study design, each with its own logic:

1. The holistic, single case study represents a ‘critical case’ for the testing of theory.
2. The single case study with embedded multiple units of analysis.
3. Holistic, multiple case studies enable the ‘replication’ of theory.
4. Multiple case studies with embedded multiple units of analysis.

The approach used in this study fits Yin’s (2009) fourth category, which is further elaborated in the section *Case Studies*.

Research process

Figure 5.1 shows the research design and process.

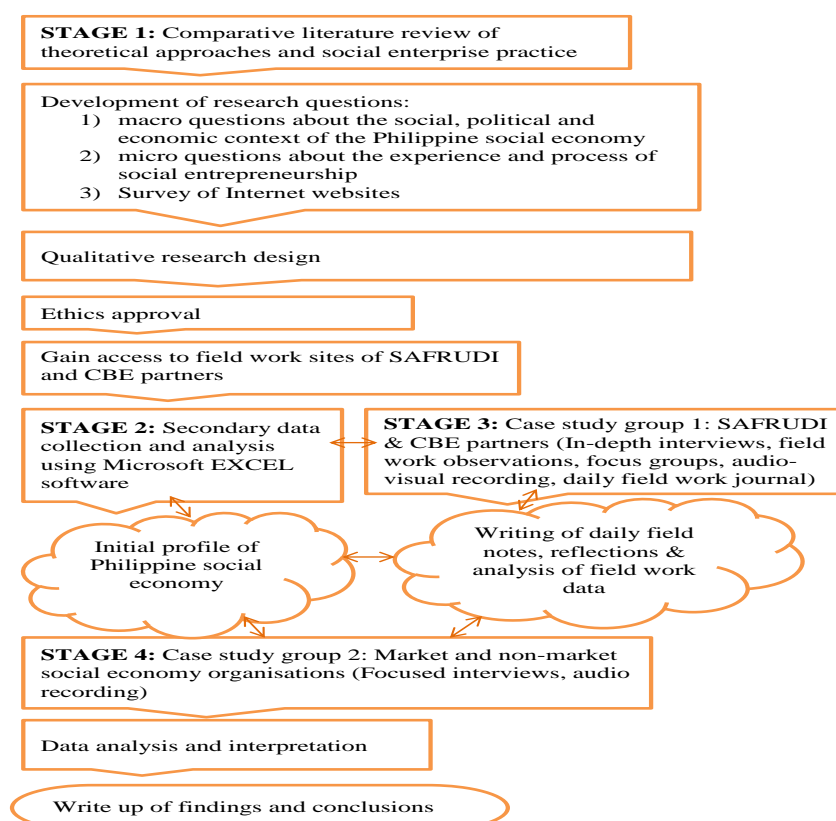
- *Stage 1* involved a review of relevant literature, which led to the development of the research design and research questions and provided the framework for data collection and analysis.
- *Stage 2* involved the collection of secondary data on, and the profiling of, the Philippine social economy.
- *Stage 3* involved Case Study 1 of SAFRUDI and selected CBE partners.
- *Stage 4* involved Case Study 2 of NGOs, which was added as fieldwork and data collection progressed to complement data collected in Stages 2 and 3.

Stage 1: Literature review methodology

International academic literature was sourced through the university library’s electronic databases. These included JSTOR, SAGE Journals Online, Wiley Online Library, EBSCO Megafire Premier,

eBook collection (EBSCOHost), Informaworld, Oxford Journals Online, SpringerLink, Social Science Research Network, Taylor & Francis, Ebrary, eBook Library (EBL), Palgrave Social and Cultural Studies eBooks, and Springerlink eBooks – Social Sciences and EconLit. Additional academic literature was sourced through electronic archives of universities with nonprofit or third sector research institutes such as the Centre for Civil Society Studies (CCSS) at the Johns Hopkins University, the Skoll Centre for Social Entrepreneurship at Saïd Business School, Oxford University and the Australian Centre for Philanthropy and Nonprofit Studies (ACPNS) at Queensland University of Technology.

Figure 5.1: Research design and process



The Philippine literature review was sourced from published academic and practitioner studies as well as from reports and publications archived in various websites:

1. Academic literature on civil society and NGOs was predominantly sourced through the electronic journals archive of the University of the Philippines, Diliman. Other websites visited included those hosted by NGOs, relevant government agencies, multi-lateral and bi-lateral donor agencies, Philippine law and statutes electronic repositories,

universities, co-operatives, international development agencies, multi-media organisations and religious and faith-based groups.

2. Research and publications by national and international social enterprise practitioners and supporters were sourced through Google search and Google Scholar. Country or regional studies of the third sector or Social Economy commissioned by government bodies were sourced through Google search as well.

The keywords used in searching this literature were 'social enterprise', 'social economy', 'social entrepreneurship', 'social entrepreneur', 'NGO' OR 'nongovernment organisation' OR 'nongovernment organisation', 'civil society', 'third sector', 'co-operatives', 'non-profit organisation' OR 'nonprofit organisation', 'microfinance' OR 'microfinance', 'fair trade', 'philanthropy', 'corporate social responsibility', 'voluntary association', 'social business', 'official development assistance' OR 'ODA Philippines', 'triple bottom line' and 'entrepreneurship'.

The explosion of the literature on the phenomenon has been tremendous since the research started in June 2009. In September 2009, for example, a search in Google for the keywords 'Philippine social enterprises,' yielded 834,000 results while a search on the keywords 'Philippine social entrepreneurship' generated 755,000 hits. Two years later (in October 2011), a search in Google Philippines for 'Philippine social enterprise' garnered 3,390,000 results while 'Philippine social entrepreneurship' generated 1,250,000. In September 2014, a Google Scholar search of articles (excluding patents) mentioning 'social enterprise' yielded 2,130,000 hits. The number of journal articles, books, newspaper clippings on 'social enterprise', 'third sector', 'social economy', 'fair trade', 'social entrepreneurship', 'microfinance', Philippine NGOs and related materials, such as 'corporate social responsibility' and 'solidarity economy' stored in my EndNote database had also been increasing. At the end of August 2012, there were 834 journal articles, conference proceedings, reports and books stored in my EndNote database that contained these keywords. By the end of 2012, the number of records had almost doubled since it included all the materials used in the different stages of the study. Although not all of these materials were relevant to the study, they suggested that making sense of this diverse literature originating from various social science disciplines was going to be a daunting challenge to any would-be scholar, not to mention the impossibility of covering the whole gamut of the discourse and debates surrounding the phenomenon.

Stage 2: Secondary data collection and analysis

In tandem with the plural economy approach (see Figure 3.2, p. 73) discussed in Chapter 3, the Philippine legal framework governing various types of organisations guided secondary data collection. Since the 1987 Philippine Constitution provided for the participation of NGOs and POs in nation-building, various laws have been promulgated mandating their representation in local governance bodies, regional and national development councils and public corporations (see Appendix B). These laws were used to search government and NGO websites to ascertain forms of organisations, NGO and PO representation and types of partnership. For example, the amended Philippine Co-operative Code of 2008 consolidated the regulation of co-operatives under one agency and expanded the types of co-operatives that could be formed. From less than 10 types of co-operatives, the Code allowed for 20 types including *inter alia* advocacy co-operative, financial service co-operative and water service co-operative. The Code also mandated the representation of co-operatives (six) in the governing body of the Co-operative Development Agency. Statutes, executive orders, policies, administrative rules and regulations were downloaded from the Office of the President, Chan Robles Law website, Philippine Law Info website, Central Bank of the Philippines, Commission on Audit and relevant government agencies. Supreme Court decisions on gambling cases during the US colonial period were also downloaded from the Philippine Law Info website.

The tripolar framework necessitated data collection on three dimensions of market-oriented social economy organisations: the economic or entrepreneurial, social and participatory governance dimensions. The indicators of each dimension were summarised in Table 3.3 (p. 77).

Social economy database

I. Social economy dataset

As shown in Table 5.2, six NGO/civil society datasets formed the basis of the secondary data analysis from which EMES indicators were derived. Annual reports, directories and other documents archived on NGO and government websites were downloaded and recorded in a single collated database in an Excel spread sheet. Appendix C contains the complete list of datasets and organisations (n=3843) whose archived databases were searched and analysed. Some archived databases included the same organisations and only single entries for each organisation were used. Each of the 3843 organisations was listed alphabetically according to name, vision, mission and goals (VMG being the acronym commonly used in the Philippines), network partners, activities, region,

scope of operation, and, following Bryman (2008), source of data, URL address and date last visited.

Table 5.2: Databases searched and analysed

Dataset	Sources	Examples of data archived
1. Church dataset	15 database archives from 8 Church organisations and 2 mass media organisations	Educational institutions by region, religious congregations, charities, community development programs, financial data, partner NGOs and POs
2. Co-operative dataset	4 database archives from public sector agencies: CDA, NDA and NATCCO	Co-operative profile in 2010–2011, financial data, business services providers, regional distribution
3. Government dataset of public sector-NGO-PO partnerships	14 database archives from public sector agencies	Socioeconomic indicators, legal documents, public sector-NGO-PO partnerships, financial data
4. Microfinance industry dataset	11 database archives from state and private financial institutions	Microfinance profile, regional distribution, financial data, microfinance conduits of public and private financial institutions
5. NGO dataset	13 database archives from NGO networks and NGO funding agencies and foundations	NGO and PO profile, vision and mission, regional distribution, financial data, partnership stories
6. Business philanthropy dataset	3 database archives from business-affiliated associations	Corporate foundations, private sector NGO-PO partnership, financial data

1. Church dataset

Fifteen databases were downloaded from the websites of the following Church and mass media organisations:

1. Roman Catholic Archdiocese of Manila
2. Claretian Communications Foundation, Inc.
3. Catholic Education Association of the Philippines
4. Episcopal Church in the Philippines
5. Philippine-Misereor Partnership Inc.
6. *Pondo ng Pinoy* Community Foundation
7. United Church of Christ in the Philippines
8. National Secretariat for Social Action-Justice and Peace (NASSA)
9. GMA Network News
10. Philippine Daily Inquirer

These databases formed the Church dataset, which contained three types of data: (i) information about religious congregations, charities, retreat houses, lay and secular organisations and schools owned or affiliated with the Roman Catholic and Protestant Churches; (ii) information about Church-initiated community development programs downloaded from the *Pondo ng Pinoy*, NASSA and Episcopal Church in the Philippines websites, with the latter including data on NGO and PO partners by region or by diocese, type of programs funded and beneficiaries; and (iii) information about the Catholic Church's investments in top Philippine corporations downloaded from the GMA Network News website and religious charities funded by the Philippine Charities and Sweepstakes Office from the Philippine Daily Inquirer website.

2. Co-operative dataset

The co-operatives dataset contained four archived databases from the: (i) Co-operative Development Authority (CDA), including the 2010 and 2011 directory of registered co-operatives under the Philippine Co-operative Code of 2008 and summary profile by region *inter alia* of type of co-operatives, assets, share capital and membership of the co-operative sector; (ii) National Dairy Authority (NDA), including a list of supported dairy co-operatives by island-region, e.g., Luzon, Visayas, Mindanao, or National, in 2006; and (iii) National Confederation of Co-operatives (NATCCO), including a registry of its members but not a regional breakdown.

3. Government dataset of public sector-NGO-PO partnerships

Winkler (2009) argues that for socioeconomic analysis, descriptive statistics are more appropriate than statistical inference and the distribution of social and economic data over regions, time and subject-matter categories 'is the key to interpreting socioeconomic phenomena' (p. 6). Thus, frequency distribution and cross-tabulation of social and economic data were employed. Whenever available for specific subsectors of the social economy, e.g., microfinance or NGO funding over a 10-year period, trend and area comparative analyses were undertaken to discover variations. Another example was contrasting regional poverty indicators against regional distribution of social economy organisations over given time periods.

The public sector financial data were summarised and totalled by account from 2006 to 2010. No other data analysis was undertaken on the audited financial and performance reports. The summaries of subsidies to NGOs and POs, grants and donations and loans receivables by government agencies, such as the Department of Labour and Employment, Co-operative Development Authority, are contained in Appendices E-H. The financial data for public corporations were also summarised and totalled and these are presented in Chapter 6.

The main source of data on public sector organisations and public corporations was the Commission on Audit. In order to determine the existence of public sector-NGO/PO partnerships, audited financial and performance reports from 2006 to 2010 were downloaded. Public sector organisations that showed the following accounts: 'Due from NGOs and POs' in the Balance Sheet; 'Subsidy to NGOs and POs' and 'Grants and Donations' in the Expense Statement were then identified. The complete five-year COA reports from the period 2006 to 2010 were downloaded for state agencies and public corporations that carried these accounts. In total, there were 35 public sector agencies and 17 public corporations that carried these accounts in their books (Appendix D contains a list of public sector agencies with NGO/PO partnerships).

The account 'Due from NGOs and POs' in the Balance Sheet means that contracted NGOs and POs have not yet reported the funds advanced to them during the year. It also accumulates unreported funds for previous years. Technically the account 'Due from NGOs and POs' is money owed by NGOs and POs to government agencies (see Appendix E). By submitting a financial report, including receipts, this account would be closed and no longer reported in the financial statements of state agencies. For loans extended to private organisations, government agencies (GAs) and local government units (LGUs), the account used in the Balance Sheet is 'Loans receivables' to refer to unpaid loan balances. The 'Subsidy to NGOs and POs' account refers to financial 'assistance' or payments advanced during the year which is subject to financial reporting (Appendix F). 'Grants and donations' are outright gifts and therefore not subject to financial reporting (Commission on Audit [COA], 2002). Unless the subsidy account is reported or an agreement is reached, government continues to claim ownership of the funds and can take NGOs and POs to court for mismanagement. Hence, the 'Due from NGOs and PO' account is an indicator of the robustness of an organisation as a social enterprise in delivering basic services or in constructing infrastructure projects for the poor. However, not all audited annual reports have broken down details of the three accounts, Grants and Donations particularly (see Appendix G containing data for 2009 and 2010). Hence, it is difficult to surmise how much were distributed to government agencies and local governments, to NGOs and POs and other organisations.

The COA audited annual reports have three main bodies: 'Part 1 Financial Statements' (Balance Sheet, Statement of Income and Expenses, Notes to the Financial Statements, annexes and schedules); 'Part 2 Observations and Recommendations'; and 'Part 3 Status of Previous Year's Recommendations'. When COA ardently disagrees with the decision to 'write-off receivables from GAs, LGUs, NGOs and POs' which have been carried over for more than five years in the books and transfers them to the 'Grants and Donations' account, the amounts are usually broken down by organisation in the 'Notes to the Financial Statement' or further explained in Part 2. In cases where

the amounts were enumerated by organisation, the amount donated to NGOs and POs was separated from the totals. The Commission's explanations in Notes to the Financial Statement and in Part 2 observations and recommendations are indicative of the strengths and weaknesses of NGOs and POs, microfinance institutions, co-operatives and other social economy organisations that contract with the state for social reform and poverty alleviation programs.

As regards public financial institutions, the account that indicates partnership with market subsector social economy organisations is 'Loans receivables' in the Balance Sheet. The COA collects data on the six public corporations that lend directly to NGO MFIs, co-operatives, POs and rural and thrift banks as microfinance conduits. These are the Land Bank of the Philippines, People's Credit and Finance Corporation, Small Business Corporation, National Livelihood and Development Corporation, Quedan and Rural Credit Guarantee Corporation and National Agribusiness Corporation. These public financial institutions also lend to government agencies with microfinance programs, such as the Agricultural Credit Policy Council of the Department of Agriculture. Two government-owned development banks – the Development Bank of the Philippines and its subsidiary, the Amanah Islamic Investment Bank of the Philippines – also lend to these public financial institutions.

4. Microfinance industry dataset

In addition to COA data discussed above, the microfinance industry dataset included databases downloaded from the websites of the:

1. Central Bank of the Philippines
2. National Livelihood Development Corporation
3. People's Credit and Finance Corporation
4. Small Business Corporation
5. SEED Finance Corporation

These government databases provided names of social economy organisations contracted as microfinance conduits by region.

In addition to the above databases, microfinance data were also collated from COA reports and the Microfinance Information Exchange (MixMarket) website. The COA reports provided data on the performance of the six public sector corporations that financed these conduits between 2006 and 2010. On the other hand, the Microfinance Information Exchange (<http://www.mixmarket.org/>) database was used to profile the microfinance industry in the Philippines. The MixMarket is a global repository of microfinance data for the microfinance industry. The MixMarket has 49 reporting NGO MFIs and rural banks and its archive dates back to

1996. I compared its data with public and private financial institutions' directories of microfinance conduits and annual reports.

5. NGO dataset

For the NGO dataset, I compiled databases from government agencies and compared them with NGO databases maintained by large NGO networks and NGO foundations set up through public debt-to-equity swap arrangements and endowments. From the government sector, the Department of Social Work and Development provided a registry of licensed social service providers by region, by program and by type of beneficiaries, among others. The Department of Tourism provided a profile of professional and industry associations, financial service providers, amateur sports associations, business chambers, their objectives and membership in the country. The Department of Labour and Employment provided a directory of trade unions and federations by island-region while the National Council on Disability Affairs has a directory of NGOs and PO set up by persons with disabilities or support groups. Other public sector agencies that provided a directory of partner NGOs POs and producers' associations by region or by province were the National Anti-Poverty Commission, Philippine Sports Commission and Sugar Regulatory Agency. The COA audited financial and performance reports of public sector agencies and names of partner NGOs and POs, whenever available, were also included in the NGO dataset.

The databases downloaded from NGO websites and the type of data downloaded were the following: (i) profile of NGO and PO members by region from Partnership for Development Assistance in the Philippines, Philippine Social Enterprise Network, Caucus of Development NGO Networks, Asia Development of Human Resources in Rural Asia, Philippine Foundation Centre, Advocates of Philippine Fair Trade, Partnership of Philippine Support Service Agencies, Philippine Partnership for the Development of Human Resources in Rural Areas; and (ii) profile of NGOs and POs by region or by island-region and financial data, including grants and loans provided by the Peace and Equity Foundation (from 2001-2009) and Foundation for Philippine Environment (from 2005-2010) and Oikocredit (as of 2011). The Foundation for Sustainable Society (from 2009 to 2010) and Federation of People's Sustainable Development Co-operative (2000 to 2006 and 2009 to 2010) provided data on their respective partner NGOs and POs and on their financial operations.

6. Business philanthropy dataset

The League of Corporate Foundations website provided a directory of its members while the Philippine Business for Social Progress provided a profile by region of NGOs and POs funded through grants or loans by private corporations or their foundations and by official development

assistance (ODA) donors in 2009. Information about Church-businessmen's partnership was sourced from the Catholic Bishops-Businessmen's Conference of the Philippines website.

II. Socioeconomic indicators and poverty measurement

Socioeconomic indicators refer to official data collected by government agencies through surveys and reporting requirements to gauge economic growth and its impact on poverty reduction. Poverty measurement, on the other hand, included various definitions and indicators, including changes made, in measuring poverty. In this study, socioeconomic indicators included data on micro, small and medium enterprises (MSMEs), labour force and overseas Filipinos' cash remittances; while poverty measurement looked at poverty concepts, such as definition of the 'poor', poverty threshold, food basket and alternative poverty measurements. These government statistics were used to generate a socioeconomic profile and the effectiveness of the social economy in poverty reduction.

The data for these socioeconomic indicators were collected from the following:

1. List of micro, small and medium establishments reported by the Department of Trade and Industry (DTI) based on the *Annual Survey of Philippine Business and Industry (ASPBI)* conducted by the National Statistics Office (NSO). The DTI is the Philippines equivalent of the following agencies:
 - Australian Trade Commission (<http://www.austrade.gov.au/>)
 - European Commission on Trade (<http://ec.europa.eu/>)
 - UK Department for Business Innovation & Skills
(<https://www.gov.uk/government/organisations/department-for-business-innovation-skills>)
 - US Department of Commerce (<http://www.commerce.gov/>).

The NSO, on the other hand, is the Philippine equivalent of the following agencies:

- Australian Bureau of Statistics (<http://www.abs.gov.au/>)
 - Eurostat (<http://ec.europa.eu/eurostat>)
 - UK Office for National Statistics
(<http://www.statistics.gov.uk/hub/index.html>)
 - US Census Bureau (<http://www.census.gov/>)
2. Labour force data based on the quarterly *Labour Force Survey* by the NSO.
 3. Overseas Filipinos' cash remittances data from the Central Bank of the Philippines.

4. Poverty measurement based on official statistics and other alternative measurements. The former relies on statistics produced by the National Statistical Coordination Board which is the Philippine equivalent of the UK Statistics Authority (<http://www.statisticsauthority.gov.uk/>) and the US Bureau of Economic Analysis (<http://www.bea.gov/>). In Australia and the EU, the ABS and the Eurostat produce both economic data and analysis. Other measures of poverty included the Asian Development Bank's forms of capital and Social Weather Station's self-rating poverty.

1. List of micro, small and medium establishments

The state had targeted the development of micro, small and medium enterprises (MSMEs) in its poverty reduction program (Magna Carta for Micro, Small and Medium Enterprises or Republic Act No. 9501 of 2008). Hence, the dataset archived by the DTI based on the NSO's annual survey of establishments was an important indicator. The dataset included data on MSMEs by industry, employment generated and distribution by province and region. The Magna Carta for Micro, Small and Medium Enterprises defined MSMEs as 'any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, co-operative, partnership or corporation' (Section 3). These establishments were categorised by size according to the value of total assets owned, such as:

1. Micro-enterprise – has total assets valued at PhP3 million or less.
2. Small enterprise – has total assets valued at more than PhP3 million but not more than PhP15 million.
3. Medium enterprise – has total assets valued at more than PhP15 million but not more than PhP100 million (Section 3 of the Magna Carta for Micro, Small and Medium Enterprises).

Furthermore, the Magna Carta for MSMEs also mandated state-private sector partnership and representation. This is discussed further in Chapter 6. In this study, MSME data on employment by type of establishment were compared for the years 2004, 2009 and 2011. In 2012, the government adopted the UN 2008 System of National Accounts (NSCB, 2012) which re-aligned industry classification. Hence, some re-classified industry data for 2011 could not be compared with previous years' industry classification. The dataset using the old industry classification was used to compare MSME investment by industry for 2004 and 2009. These data were used in Table 6.10 (p. 221) and Figure 6.2 (p. 222) in Chapter 6.

2. Labour force data

The labour force survey generated by the NSO provided data on employment in the formal and informal economy by region, by industry and by worker classification. The survey included the number of population 15 years old and over who were in the labour force based on indicators adopted by the ILO (Husmanns, 2005; International Labour Organisation [ILO], 2012). Employed persons were defined as persons ‘at work’ or ‘with a job but not at work due to temporary illness, vacation and other reasons’ (National Statistics Office [NSO], 2012, n.p.). ‘Persons at work’ was defined as ‘those who do any work even for one hour during the reference period for pay or profit, or work without pay on the farm or business enterprise operated by a member of the same household related by blood, marriage or adoption’ (NSO, 2012, n.p.). The ILO defined the concept ‘informal sector’ as comprising:

units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees (Paragraph 5, ILO, 1993).

Based on the above definition, data on three classes of informal sector workers were generated by the labour force survey (Domingo, 2004; Pastrana, 2009). The NSO defined the three classes as:

1. Self-employed – persons who operate their own businesses or trades and do not employ paid workers in the conduct of their economic activities.
2. Employers – persons who employ one or more paid employees in the operation of their businesses or trades.
3. Unpaid family workers – those who work without pay on own family-operated farm or business’ consist of ‘members of the family who assist another member in the operation of the family farm or business enterprise and who do not receive any wage or salary for their work’ (NSO, 2012, n.p.)

The ‘self-employed’ and ‘employers’ were the specific beneficiaries of the Magna Carta for MSMEs. Together with the data on MSMEs, the NSO’s aggregated labour force data in the formal and informal economy in 2011 were used in Table 6.8 (p. 211) and in Figure 6.1 (p. 212) in Chapter 6.

3. Overseas Filipinos' cash remittances data

The Central Bank data on overseas Filipinos' cash remittances covered the period from 2003 to 2011. The data were aggregated and used in Table 6.8 (p.211) and Figure 6.1 (p. 212) in Chapter 6. Although the data included information where overseas Filipinos could be found by country, no other data analysis was made on this.

4. Poverty measurement data

Official and alternative poverty measurement data and concepts were used for the context of the study in Chapter 1. For an analysis of the success of poverty alleviation and social reform programs and the role of SEOs, official poverty measurements were utilised in Table 6.2 (p. 196) in Chapter 6).

To reiterate, the social economy database created for secondary analysis comprised the social economy dataset and socioeconomic indicators and poverty measurement. The social economy dataset was mined for information on the vision and mission of social economy organisations, the reach and scope of their operations, the nature of their economic contribution and the scope of activities using the major categories comprising the plural economy framework (discussed in Chapter 3): the public/state, private/market and community/household sectors, further divided into the market and non-market subsectors. The six secondary datasets were recorded in a single collated database file in an Excel spread sheet. Appendix C, contains the complete list of datasets and organisations (n=3843) whose archived databases were searched and analysed. Some archived databases included the same organisations and only single entries for each organisation were used. Each of the 3843 organisations was listed alphabetically according to name, vision, mission and goals (VMG being the acronym commonly used in the Philippines), network partners, major activities (as listed by the organisation concerned), region, scope of operation and, following Bryman (2008), data source, URL address and date last visited. This database was then analysed through a keyword search, such as health, microfinance and education.

The collated Excel database served as the main social economy database to compile a profile of the Philippine social economy. The variety and difference in the quality of the datasets necessitated standardising data into common fields so as to collate them into the main database for analysis. Acrobat Pro software was used to convert tables and databases in PDF format into Microsoft Excel files. Protected government documents, which could not be converted, such as Commission on Audit financial reports, were manually encoded. The software used to collate and process the database was Microsoft Excel. This main database was used to generate the number of discrete social economy organisations, their regional operations, vision, mission and program

activities. In order to get the number of discrete organisations, the names were standardised. Due to the different manner in which the names were encoded – use of abbreviations and incomplete names – the name that seemed to be the most complete was used. In order to verify that the name corresponded to the same organisation, other fields, such as vision, mission, or program activities, were compared. The field containing the organisation's name was sorted alphabetically several times to ensure that standardisation was complete. There were 7,305 records in the collated database with 3,843 discrete organisations. This number is just a fraction of other estimates of the size of Philippine civil society – variously placed at 497,000 in 1998 (Cariño, 2002) and 107,163 in 2009 (Securities and Exchange Commission in Tuaño, 2011).

As regards financial data and number of NGOs and PO that accessed grants and loans, data from NGO financial intermediaries were totalled separately. For example, the grants provided through the Philippine Business for Social Progress by corporate and ODA donors totalled PhP361.8 million in 2009. The sums of grants from two other NGO funding agencies were added to generate the following data: total grants provided to 1,849 NGOs, POs and co-operatives from 2001 to 2010: PhP973.6 million. These data are presented in Table 6.8 (p. 211). Data from the MixMarket were also processed separately. Some of the resultant data are presented in Table 6.3 (p. 197) and Table 6.8 (p. 211).

Case Studies

As already discussed, the Philippine social economy was the *phenomenon* under study. However, broader national policy, political dynamics, social structures and economic factors formed the *context* in which the *case study* of particular organisations took place. On the latter, there were two case study groups:

1. Case Study 1 comprised organisations operating under the umbrella of SAFRUDI and selected community-based enterprise (CBE) partners.
2. Case Study 2 NGO or civil society organisations engaged in social enterprise and non-market activities.

The SAFRUDI case study involved several units of analysis, including SAFRUDI and CBE partners, SAFRUDI personnel and home-based worker-producers resulting in a complex multi-layered case study design fitting Yin's fourth category, as illustrated in Figure 5.2.

The methods of data collection used to compile the case studies were: documentary or secondary analysis, focused interviews, fieldwork observation, focus group discussions and daily journal keeping. I employed purposive sampling in identifying my research participants for the two

case study groups. The rationale was to ensure that only cases and participants relevant to the research objectives were recruited (Bryman, 2008). Since the research did not intend to generalise to a population, purposive sampling was deemed appropriate. Given that the case studies tested related conceptual frameworks synthesised in Figure 3.6 (p. 103) in Chapter 3, the cases generalised to the frameworks. Yin (2009) labels this ‘analytic generalisation’ (p. 38); while Stake (2009) calls it ‘naturalistic generalisation’ (n.p.).

Figure 5.2: Single multi-layered case study design



To reach analytic generalisation, data collection and data analysis for the two Case Studies hewed to the synthesised conceptual frameworks, i.e., hybridisation, FT as fair trade hybrid market form, and application of EMES SE concept to FTOs through blending of FT principles with EMES SE dimensions and indicators for FTOs in Case Study 1 and Case Study 2; and, hybridisation and application of EMES SE concept to non-FT organisations in Case Study 2. For data collection, the key research questions relating to the two case studies were translated into more specific, open-ended questions in the *Guide Questionnaire* approved by the University’s Research Ethics Committee (Appendix J). However during field work, these were further supplemented by more in-depth questioning. For example, to elicit responses to research question number 6 ‘*What benefits do they enjoy?*’ relating to Case Study 1: SAFRUDI and CBE partners, questions, such as their work experiences in SAFRUDI and in other companies; the changes they have observed since they first

worked in SAFRUDI; their family situation – whether their family lived with them or elsewhere and what their children were studying – were posed (see *Data Collection* sub-section in *Stage 3: Case Study 1 – SAFRUDI and CBE partners* and Appendix K: Interview schedule – sample questions). The same process was resorted throughout as the field work progressed, which is in keeping with the logic of on-going in-depth investigation characterising qualitative research studies (Bryman, 2008; Glaser & Strauss, 1967; Huberman & Miles, 2002; Yin, 2009)

Data analysis for FTOs in Case Study 1 and Case Study 2 followed Huybrechts and Defourny's (2008) approach (see Table 3.9 on p. 92) by juxtaposing and blending the 10 fair trade principles with relevant EMES SE dimensions and indicators; while data analysis for non-fair trade SEOs in Case Study 2 compared and contrasted, *inter alia*, the SEOs' VMG, operations, and governance structure with EMES SE dimensions and indicators. To reiterate, the aim was to test the extent to which these case studies can be considered social enterprises; and for FTOs, the extent to which they are social enterprise FTOs based on Europeans understandings of the characteristics of market-oriented SEOs and fair trade.

Stage 3: Case Study 1 – SAFRUDI and CBE partners

Selection of Case Study 1 participants

SAFRUDI and its CBE partners were pre-selected as Case Study 1 in the research proposal because I was already familiar with the organisation. Being a 'sister' organisation of the institute with which I worked, I had provided a few business development services to SAFRUDI. In choosing the organisation and its partner enterprises, I was quite aware that I could be biased. However, since my study was broader than SAFRUDI, its CBE partners and the social economy organisations that participated in the study, the line of enquiry was on understanding the social enterprise experience in the context of the Philippine economy in general and the Philippine social economy in particular. Hence, specific organisational issues, such as policy affecting piece-rate workers, hereafter referred to as PRWs, were juxtaposed against wider contexts.

I began my fieldwork in mid-October 2010 and ended in May 2011. The first three weeks were preparatory and meetings were arranged with SAFRUDI's Chair of the board of trustees and Executive Director. A set of documents given to me at the first meeting was my basis for pre-selecting research participants. I was formally introduced to SAFRUDI at the annual retreat from November 4-6, 2011 where SAFRUDI staff and representatives from all GBP areas were in attendance. I was also given a desk at the SAFRUDI office for fieldwork use.

SAFRUDI has a total of 53 staff members classified as regular staff (37 or 70%) and PRWs (16 or 30%). All were invited to participate and given the research protocol beforehand (see Appendices H-K). Of these, 23 (74%) regular employees and 10 (63%) PRWs agreed to participate in the study. In addition, two board members were interviewed.

CBE partners included in Case Study 1 were selected from SAFRUDI's roster of 129 'active partners' and 'inactive partners' across the country. SAFRUDI sources product samples from these producers for inclusion in the organisation's catalogue and display centre. SAFRUDI defines 'active partner' as an enterprise that receives purchase orders from SAFRUDI and its fair trade buyers for at least two consecutive years. 'Inactive partner' is a partner whose products are not ordered on a regular basis, i.e., for two consecutive years. Although classified as inactive, it is not clear how many of these CBEs have remained active suppliers for other buyers. A few, however, were discovered to have ceased operations after being contacted for the research.

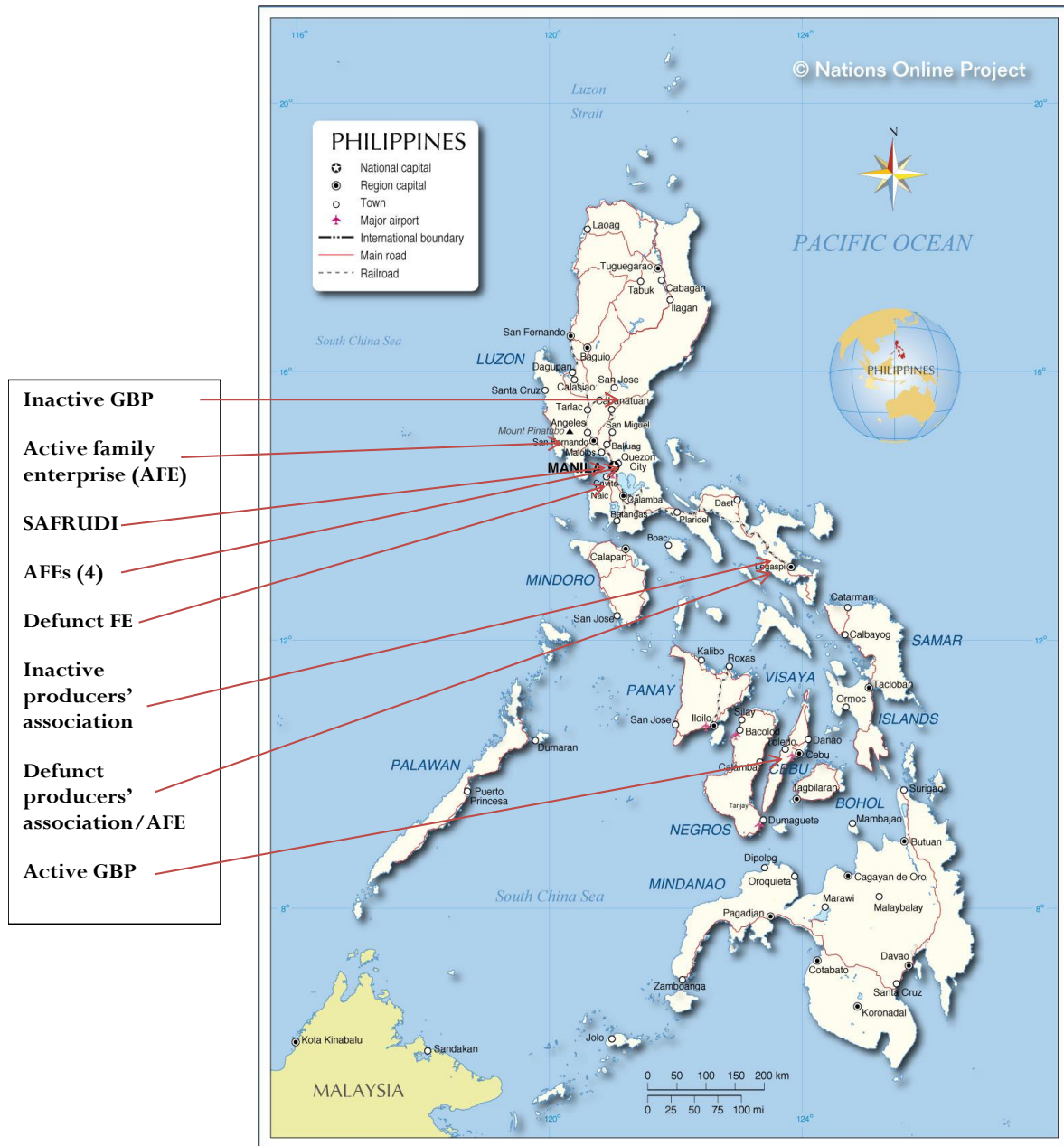
Based on the roster, less than 10 could be considered 'active' with five (four family enterprises and one producers' association) getting purchase orders yearly since 2004. Furthermore, SAFRUDI classifies CBEs as 'independent producers' and 'organised producers'. The latter refers to producers' associations that SAFRUDI organised through its Integrated Social Development Program (ISDP). These producers' associations are called *Gabay sa Bagong Pag-asa (GBP)* – Guide for a New Hope. At the time of fieldwork, there was one active GBP, one inactive GBP that has been a SAFRUDI partner for over two decades and three GBPs being organised by the ISDP. The 'independent producers' were simply those not organised by SAFRUDI and included family enterprises and producers' associations. Consequently, my initial proposal of sampling five family enterprises and five producers' associations that have been partners of SAFRUDI for the past five years was modified to include active, inactive, external and internal CBE partners.

I sent my research protocol by courier service to 15 active and inactive CBE partners. Except for the SAFRUDI-organised producers' association in Central Philippines, the wide geographic spread of partner social enterprises necessitated limiting my selection to those based in Luzon. After a week, I followed up my request by phone. Ten of the 15 invited CBE partners agreed to participate in the study, one declined while the remaining four did not respond.

One inactive family enterprise that agreed to participate turned out to have ceased operations while an 'active' producers' association had been dissolved in 2005. However, the ex-president of the defunct co-operative continued to be an active supplier to SAFRUDI but the name of the organisation was not changed in SAFRUDI's list of CBE partners. Table 5.3 summarises the category and number of research participants in Case Study 1. Figure 5.3 shows the locations where

the fieldwork took place from October 2010 to May 2011. Except for Cebu in Central Philippines, the remainder of the CBE research participants was located in the main island of Luzon.

Figure 5.3: Case Study 1 fieldwork site



Source of map: Nations Online Project, <http://www.nationsonline.org/oneworld/map/philippines-political-map.htm>

Table 5.3: Case Study 1 participants

Organisation	Research participants	
	Organisations	Individuals
a. SAFRUDI	1	33
b. CBE partners	11	36
Active GBP	1	4
Inactive GBP	1	8
Active family-owned enterprise (AFE)	6	10
Non-SAFRUDI-organised inactive producers' association (IPA)	1	12
Defunct producers' association (DPA)	1	1
Defunct family-owned enterprise (DFE)	1	1
Total	12	69

Profile of Case Study 1 participants

SAFRUDI

Twenty-three regular staff and 10 PRWs agreed to participate in my study. Regular employees have permanent, monthly-paid status and enjoy legally-mandated benefits, such as the minimum daily wage rates, social security, 13th-month pay, vacation and sick leave and separation and retirement pay based on longevity. PRWs, on the other hand, are paid per item processed or produced based on time and motion study. The basis for computing the rate is also the legally-mandated daily minimum wage. For example, the total number of lotus petal-shaped *capiz* shells that could be washed by an average worker in 8 hours is 6,000. If the daily minimum wage was PhP410 (approximately AUD10), the piece rate would be 0.68 cents. If the assigned PRW worked faster or longer and washed a total of 8,000 pieces, the pay would be PhP544. However, unlike regular employees, the income of PRWs is dependent on production. Hence, it could vary from zero to more than the pay of a regular employee.

Although their employment status is piece-rate, PRWs enjoy the same benefits accruing to regular employees. In addition, they get a modest monthly rice allowance that the latter do not receive. The SAFRUDI PRW remuneration package, however, is not the standard but rather the exception in the Philippine labour market. Table 5.4 shows that the majority of SAFRUDI research participants, whether regular or piece-rate had been employed for more than nine years at the time of this study.

In terms of gender distribution shown in Table 5.5, male research participants outnumbered female participants by three.

Table 5.4: Profile of participants from SAFRUDI

Years in service	Regular staff	PRWs	Frequency distribution	
			Regular staff	PRWs
0-4 years	6	0	26%	0%
5-9 years	1	0	4%	0%
10-14 years	6	6	26%	60%
15-19 years	8	1	35%	10%
20-24 years	1	1	4%	10%
25 years and over	1	0	4%	0%
N/A	0	2	0%	20%
Total	23	10	100%	100%

Table 5.5: Distribution of SAFRUDI research participants by gender

Employment Status	Male	Female	Total
Regular rank-and-file	10	4	14
Piece-rate workers	3	7	10
Management (department heads, Executive Director, supervisors)	6	3	9
Total	19	14	33

CBE partners

The research participants from CBE partners included core leaders, home-based worker-producers and owners of family enterprises. Home-based worker-producers interviewed were members of the producers' associations. By gender, majority of research participants were female, while only four were male. Table 5.6 shows the breakdown of CBE research participants by category and gender.

Table 5.6: Research participants from CBE partners, by category and gender

Category	Female	Male	Total
CBE core leaders	10	0	10
CBE home-based worker-producers	16	0	16
Family enterprise owners	6	3	9
Former family enterprise owner	0	1	1
Total	32	4	36

In total, there were 69 research participants from SAFRUDI and CBE partners, 39 of whom were interviewed in groups and 30 as individual research informants.

Data Collection

In-depth interviews

I used the term ‘in-depth interview’ to denote a style of qualitative interviewing that blends semi-structured and unstructured interviews (Bryman, 2008). I used the *Guide Questionnaire* in interviewing research participants as well as issues identified by them that were not included in the schedule. For example, SAFRUDI’s casual workers or PRWs were interviewed while they were working in the Materials Unit on the ground floor and again while they were working in the Production Unit on the second or third floors of the factory building. PRWs are asked ‘to go down’ (*pinapababa kami*) by management when there is a slack in production to assist in packaging and labelling of goods due for delivery. The act of ‘going-up-and-down’ turned out to correspond to SAFRUDI’s annual production cycle which was less than 12 months; while the intermediary marketing function or the export business side was 12 months. Also, during my first few weeks in SAFRUDI, the first batch of research participants (n=7) shared additional information about their family and personal lives. Although at first I joined their conversation and shared some information about myself to establish rapport, it occurred to me that their personal stories were intimately bound with the SAFRUDI fair trade narrative and, perhaps, it was their way of telling me how their lives were affected, for better or for worse, by the organisation. Thereafter, I incorporated personal questions in my interviews with subsequent research participants.

The style of the interview was conversational. Generally, the questions were phrased in terms of the semi-structured interview guide. The individual informants were asked to provide facts and opinions about SAFRUDI as a fair trade organisation, *inter alia*, they were asked to describe:

1. Their work experiences in SAFRUDI and in other companies.
2. Their relationship with co-workers and managers.
3. Their opinion of the goods produced by external producers.
4. The changes they have observed since they first worked in SAFRUDI.
5. Their family situation, e.g., whether their family lived with them or elsewhere and what their children were studying.

Table 5.7 shows the individual informants for Case Study 1 with whom semi-structured interviews were conducted in different worksites during working hours in SAFRUDI headquarters and CBE production centres between November 2010 and May 2011.

Table 5.7: Individual informants

Organisation	Number
SAFRUDI	17
CBE partners	13
Total	30

Semi-structured interviews

The *Guide Questionnaire* was used in interviewing individual informants. The semi-structured interviews varied in duration, the minimum being one-and-a-half hours and the maximum being three hours. Three of the semi-structured interviews with family enterprise owners were conducted at their home residence while one was conducted in SAFRUDI's office.

Focus groups

Focus groups (n=8) were held with research participants who could not be interviewed individually or when the function of the group, e.g., SAFRUDI's marketing department, necessitated interviewing the staff as a group. Two couples who were owners of their respective family enterprises were interviewed as a group at the venue of the 2011 Annual Producers' Assembly. In other instances, an informal group interview was resorted to whenever individual interviews were not possible because research participants worked in proximity to one another and tended to share their opinions. Table 5.8 shows the focus group participants.

Table 5.8: Focus group research participants

Organisation	Number of groups	Number of participants
SAFRUDI	2	9
CBE partners	6	30
Total	8	39

Direct observation

Direct observation was used to discern how the 10 fair trade principles were assimilated in organisational culture and working conditions. For example, one of the fair trade principles is 'ensuring good working conditions'. This means the use of occupational health safety (OHS) gadgets by SAFRUDI workers. However, PRWs were observed not to use the masks provided to them and this observation was pursued during the interviews. I observed *inter alia* work processes, organisational culture, group dynamics and language and signage used. In addition, I noted the state

of four CBE centres visited and residences of family enterprise owners and home-based worker-producers who were interviewed at home (n=9). The criteria used were the following: existence of a separate work area from the living area, the building or housing materials used, e.g., concrete, semi-concrete (combination of cement and wood) and ‘work-in-progress’ (the house is slowly being built – with bamboo tiles standing side by side cement walls and *nipa* thatched roof interspersed with corrugated iron sheets). The home-based worker-producers were particularly proud of the state of their house as a ‘work-in-progress’.

Audiovisual recording

Audiovisual equipment – still camera, video camera and mobile phone – was used to record the interviews, focus groups, work processes and institutional meetings. Although the mobile phone proved less distracting (since almost everyone had one) than the video camera, the latter was useful in capturing group dynamics and institutional activities, e.g., SAFRUDI’s annual retreat and annual producers’ assembly to supplement observational data.

Field notes

I recorded reflections and emerging questions in my mobile phone’s note application, which I sent to my e-mail address for downloading onto my laptop. I also noted conversations of SAFRUDI staff during work breaks when the mood was relaxed and informal. I used these bits of information for constructing probing questions. For example, I heard regular staff criticising workers who surrendered their ATM card as ‘collateral’ to informal lenders. Since salaries were paid electronically, the lender was assured of payment. Because it seemed a sign of a deeper problem, I used the information to question regular and piece-rate workers about their wages, cost of living and family situation.

I recorded my feelings and state of mind as I alternated between being an objective researcher and empathetic listener and between hope for the organisation and despair for PRWs. Since I conducted my fieldwork during the Christmas season, I was very much aware of how important it was for PRWs to earn. But, weeks before Christmas, their production was delayed due to certain decisions made by management. Thus, there was tension and frustration in the run-up to Christmas.

I was similarly confounded by my first fieldwork outside Manila. Three days after I arrived, there was nothing much to observe after the last order was delivered to SAFRUDI and no order was received within the two weeks I was there. I was worried that I was wasting my time staying in the CBE centre just waiting for things to happen. After interviewing the core leaders and my key informant, who lived near the Centre, I finally understood that ‘order’, ‘production’, ‘delivery’

and 'waiting' were linked to the business cycle that characterised SAFRUDI. The order to waiting period was somewhat akin to the action of 'going-up-and-down' shared by PRWs. In between the waiting period for the next order, however, the core leaders of the CBE followed up on smaller orders from a few local buyers. Hence, the waiting which appeared a waste of time to me was for the CBE an opportunity to get production orders from local buyers, albeit small. But, the waiting could also be a time of uncertainty for them.

I used the time as well to better understand my research question in relation to SAFRUDI's business status and how it impacted on its workers and CBE partners. And it set me wondering whether other social enterprises experienced the same challenges confronting SAFRUDI and its CBE partners. Thus, the field notes functioned as a kind of warning device that led to the addition of Case Study 2.

Documents

Documents included SAFRUDI annual reports from fiscal year 2005 to 2009, 35th and 40th anniversary souvenir magazines, annual producers' assembly kit and *LINK*, an in-house newsletter published by SAFRUDI. Ten *LINK* issues from December 2004 to April 2011 were gathered. In the absence of photocopying machines, annual reports from 2008 to 2009 of two producers' associations were photographed. These documents were used to complement data from interviews and focus groups as well as to analyse the financial performance of SAFRUDI and its CBE partners.

Data analysis

The data from the interviews (n=40), focus groups (n=8) and annual producers' assembly (n=1), field notes, videos and photos were transcribed and encoded in NVivo 10 for data processing and analysis. The transcriptions of the audio-visual recording involved several stages. I hired two research assistants to assist in transcribing the interviews and focus groups. One of the research assistants was versed in the local dialects of the research participants from Cebu and Sorsogon and was delegated to transcribe the audio-visual recordings into Filipino (the national language). The second research assistant assisted in translating the transcriptions into English. However, due to the vast amount of data collected, only that related to the research questions was translated into English.

The first stage of coding was free-flowing using words and phrases used by research participants. The second stage grouped these words and phrases into second-level codes or categories that reflected the conceptual propositions of the EMES SE guided by Table 3.9 in Chapter 3 (see p. 92) summarising Huybrecht and Defourny's approach to FTOs. In blending FT

and EMES SE indicators, some fair trade principles were added or replaced EMES indicators not deemed relevant to Case Study 1. Since SAFRUDI and CBE partners adhere to the 10 fair trade principles (see p.169 and p. 203), these principles were added as indicators under the three social enterprise dimensions. The fair trade principle ‘no child labour’ was excluded since it was deemed irrelevant for SAFRUDI. For consistency, it was not applied to the CBE partners. Given that the fair trade principles are not only about fair business practices but also about larger social and economic justice, the social dimension indicators increased to six with the ‘payment of a fair price and fair wages’ principle placed in both economic/entrepreneurial and social dimensions. Two related fair trade principles – ‘creating opportunities for disadvantaged producers’ and ‘capacity building of producers and their workers’ were combined as a social dimension indicator. The coding process showed that the social enterprise dimensions were mutually reinforcing and not to be treated as boxes that needed to be ticked. Every code also had to be related to another code in another dimension. For example, the EMES SE has nine indicators while the Case Study 1 indicators have 11 with one in both the economic and social dimensions. The fair trade principles added as indicators to the three social dimensions are shown in Table 5.9 with the first two columns reproduced from Table 3.3 in Chapter 3 (p. 77) and the third column from Table 3.9 (p. 92). Along with the justifications for the inclusion of fair trade principles as indicators the data were then coded in terms of the EMES SE dimensions and indicators as discussed below.

Economic and entrepreneurial dimension

Employing Huybrecht and Defourny’s approach, the following guided the analysis of data under this dimension: the trading activity of SAFRUDI to economically assist – through better trading conditions – partner producers; its market performance and entrepreneurial capabilities to survive the mainstream market while advocating equitable trading relationships; and the mix of income from trading and non-trading income generated to support its operations. The blended EMES SE and FT indicators were: ‘a continuous activity producing and selling goods’; ‘a significant level of economic risk where sustainability depends on SAFRUDI management, staff, PRWs, GBPs and CBE partners securing adequate resources’; and, ‘payment of a fair price and fair wages’.

Table 5.9: Dimensions and indicators of the EMES framework for Case Study 1

Dimension	EMES Indicators (9)	Case Study 1 Indicators (11)	Huybrechts and Defourny's scheme linking fair trade principles with EMES' concept
Economic/ entrepreneurial	<ol style="list-style-type: none"> 4. A continuous activity producing goods and/or selling services; (advocacy is not the main activity). 5. A significant level of economic risk; sustainability is dependent on workers and members to secure adequate resources. 6. A minimum amount of paid work while combining non-monetary and monetary resources and voluntary work. 	<ol style="list-style-type: none"> 1. A continuous activity producing and selling goods. 2. A significant level of economic risk where sustainability depends on SAFRUDI management, staff, PRWs, GBPs (<i>Gabay sa Bagong Pag-asa</i> Associations) and CBE partners securing adequate resources. 3. Payment of a fair price and fair wages. 	<ol style="list-style-type: none"> 4. Analyse extent of trading activity undertaken by SAFRUDI to economically assist – through better trading conditions – partner producers. 5. Analyse market performance and entrepreneurial capabilities of SAFRUDI to survive the mainstream market while advocating equitable trading relationships. 6. Analyse mix of income from trading and non-trading income or resources to support SAFRUDI's operations.
Social	<ol style="list-style-type: none"> 7. An explicit aim to benefit the community but at the same time promote a sense of responsibility at the local level. 8. An initiative launched by a group of citizens or civil society organisations; this collective dimension must always be maintained even when led by an individual or a small group of leaders. 9. A limited profit distribution to inhibit profit-maximising behaviour. 	<ol style="list-style-type: none"> 4. An explicit aim to benefit the community at the same time promoting a sense of responsibility. 5. Promoting fair trade. 6. Promoting gender equity. 7. Payment of a fair price and fair wages. 8. Safe and healthy working conditions. 9. Creating opportunities for disadvantaged producers and capacity building of producers and workers. 	<ol style="list-style-type: none"> 4. Analyse how SAFRUDI pursues its vision of fairness and 'greater equity in international trade' and long-term goal of sustainable development. 5. Analyse organisational constitution of SAFRUDI in terms of who are the members of the board of trustees/directors, and how partner producers are empowered by the trading relationship. 6. What is the organisational or legal form of SAFRUDI that allows for limited profit distribution?
Participatory governance	<ol style="list-style-type: none"> 10. A high degree of autonomy from public authorities and private organisations that subsidise operations of the enterprise; partners and members have the right of 'voice and exit'. 11. A decision-making power not based on capital ownership but on one-member-one vote principle. 12. A participatory nature, which involves parties affected by the activity to advance democracy at the grassroots level through economic activity. 	<ol style="list-style-type: none"> 10. CBE partners and GBPs (<i>Gabay sa Bagong Pag-asa</i> or Guide for a New Hope Associations) have the right of 'voice and exit'. 11. Ensuring the accountability and transparency of fair trade principles (subsumed EMES indicator 9). 	<ol style="list-style-type: none"> 4. Analyse how SAFRUDI's avowed principle of 'trading partnership, based on dialogue, transparency and respect' is practiced in relation to partner producers. 5. Analyse how SAFRUDI, backed by buyers, pursues awareness raising and education to change the inequitable 'rules and practice of conventional international trade' (WFTO, 2001). 6. How is the governance structure of SAFRUDI implemented?

Source: Defourny and Nyssens (2010, 2012, pp. 77-78)

1. A continuous activity producing and selling goods.

As an example of first stage coding under this dimension, the phrases *wala pang PO* (no purchase order yet), or *nag-aantay pa ng PO* (still waiting for the next PO) were coded as first-level categories. Later, they were incorporated into the second-level code 'production is contingent on actual FTO buyer demand, it is passive not proactive'. From other first-level and second-level codes related to production two separate codes for business cycles emerged – 'business cycle for production' and 'business cycle for IMO function'. The first has a shorter production period for SAFRUDI's production unit and CBE partners, while the latter is a 'continuous activity of selling goods' for SAFRUDI.

2. A significant level of economic risk where sustainability depends on SAFRUDI management, staff, PRWs, GBPs and CBE partners securing adequate resources.

An example under this indicator included two related first-level codes 'product sample by producer' and 'product sample by buyer'. The first referred to a product prototype designed by a CBE producer while the second meant a prototype designed elsewhere and ordered for sample production by a CBE partner. The higher-level category for the two first-level codes was 'product development' which referred to producer skills, creativity and capability to develop new products. It was subsumed further under the indicator 'a significant level of economic risk'. The reason for subsuming it under this category was that product development required a certain amount of capital because raw materials were purchased wholesale. Thus, CBE producers investing in product development were taking financial risks because there was no certainty that their investment would pay off. In addition, once samples made by producers were bought by SAFRUDI, they could not show it to other buyers because SAFRUDI became the 'owner' of the samples. Hence, if SAFRUDI did not get an order for these, their investment in product development would not pay off. In 'sample product by buyer', CBEs also took risk but they recouped part of their investment because they were paid for the samples made.

3. Payment of a fair price and fair wages.

This fair trade principle replaced the EMES indicator 'a minimum amount of paid work while combining non-monetary and monetary resources and voluntary work' because it seemed more relevant to SAFRUDI and CBE partners. A first-level code that pertained to this indicator was 'pegging fair wages to mandated minimum daily wage per region'.

Social dimension

Under this dimension, data analysis were guided by the following: how SAFRUDI pursued its vision of fairness and 'greater equity in international trade' and long-term goal of sustainable development; organisational constitution of SAFRUDI in terms of who were the members of the board of trustees/directors, and how partner producers were empowered by the trading relationship; organisational or legal form of SAFRUDI that allowed for limited profit distribution. The blended EMES SE and FT indicators were: 'an explicit aim to benefit the community at the same time promoting a sense of responsibility'; 'promoting fair trade'; 'promoting gender equity'; 'payment of a fair price and fair wages'; safe and healthy working conditions'; and, 'creating opportunities for disadvantaged producers and capacity building of producers and workers'.

4. An explicit aim to benefit the community at the same time promoting a sense of responsibility.

An example of first-level code pertaining to this indicator was 'sub-contracting and effect on piece-rate workers'. Sub-contracting meant that SAFRUDI production order or certain production processes were being out-sourced to other enterprises because their production costs were found to be lower or more efficient. Although the code also had an *economic and entrepreneurial dimension*, the objective of providing year-round livelihood to PRWs appeared to be sacrificed. Thus, the code was deemed to be under the *social dimension* indicator 'an explicit aim to benefit the community' with PRWs as 'community'. To capture this, a second-level category was coded 'types of community and benefits enjoyed' which differentiated PRWs from GBPs and CBEs. This second-level category was also juxtaposed against another higher-level category or indicator added to the social dimension. This indicator was the fair trade principle '*payment of a fair price and fair wages*'.

5. Promoting fair trade.

In the EMES social enterprise definition, advocacy is not a main activity of the social enterprise; however, in the fair trade movement, advocacy is part and parcel of the fair trade enterprise. Hence, this fair trade principle as well as '*promoting gender equity*' was added as social dimension indicator. An example of a first-level code under the indicator 'promoting fair trade' was 'fair trade is about fair price', which emerged as a common refrain from producers and 'fair trade is about having work' from PRWs. This seemed to show that promotion and assimilation of fair trade principles were not congruent. Of the 10 fair trade principles, payment of fair price and continuous work (which is related to the payment of fair wages) appeared to have the most emotional connection.

6. Promoting gender equity.

As regards this indicator, a first-level code example was ‘my work in the organisation allowed me to send my children to school’. Because most of the home-based worker-producers of CBE producers’ associations were women, their participation in paid work was viewed as a form of economic empowerment for the family. Viewed from the fair trade principle ‘promoting gender equity’, which is narrowly defined as ‘upholding the principle of equal pay for equal work of equal value’, a second-level category was created to capture ‘gender equity from the perspective of women home-based worker-producers’ and ‘gender equity from the fair trade perspective’.

7. Payment of a fair price and fair wages.

This indicator subsumed a lower-level category labelled ‘traditional artisanal production system practised by family enterprise owners’. The system included free accommodation and/or food to workers, cash advances, piece-rate pay and subsidising (*mamuhunan* or ‘investing in’) the cost of living of a minimum number of piece-rate workers while waiting for a PO. Stay-in workers allowed family enterprise owners to initiate production as soon as a PO was received. Again, this has an economic and entrepreneurial dimension but viewed from a social justice perspective in relation to the PRWs as community, I included it in the social dimension.

8. Safe and healthy working conditions.

As regards this fair trade indicator, an example of a first-level code observed was ‘high volume of radio music played’. This was true in almost all work units of SAFRUDI from the administrative office to the production area. In the binding area where brass wires were edged on *capiz* shells, the noise from pounding could be deafening. Combined with music playing at a very high volume, the noise pollution level would be even higher. However, workers were observed not to be wearing earmuffs as protective gear and it seemed ‘noise pollution’ was not a health issue. From the point of view of PRWs, ‘music makes their work less boring’, a first-level code that I translated into second-level category ‘piece-rate work and alienation’. Alienation is defined here as the act of production that involves ‘feelings of powerlessness, isolation, and discontent at work’ (Scott & Marshall, 2009).

9. Creating opportunities for disadvantaged producers and capacity building of producers and workers.

This indicator subsumed a related fair trade principle which was ‘*capacity building of producers and their workers*’. By developing the entrepreneurial capabilities of producers, it was assumed that they would be able to innovate, develop new products, expand their market and manage their enterprise more efficiently. Except for one producers’ association that was able to partner with a major North

American mainstream business buyer, most of the interviewed CBE partners indicated their disinterest in becoming exporters or expanding their markets. Examples of first-level codes that mirrored this indicator were: 'we're already happy being a supplier to SAFRUDI', 'we don't want additional headache' and 'we're already old'. The first two low-level codes were eventually subsumed under a second-level code 'enabling and disabling factors for becoming independent producers'. On the other hand the first-level code 'we're already old' was incorporated into the second-level code 'inter-generational succession', which captured how second-generation entrepreneurs, e.g., children of home-based worker-producers, family enterprise owners and community members, were encouraged or groomed to take over the business. Again, these two second-level codes had a risk-taking meaning inherent in them and further probing of the data related it to another second-level code 'niche nature of the handicraft market' in the economic and entrepreneurial dimension.

Participatory governance dimension

Under this dimension, the following guided data analysis: how SAFRUDI's avowed principle of 'trading partnership, based on dialogue, transparency and respect' was practiced in relation to partner producers; how SAFRUDI, backed by buyers, pursue awareness raising and education to change the inequitable 'rules and practice of conventional international trade' (WFTO, 2001); and, how the governance structure of SAFRUDI is implemented. The blended EMES SE and FT indicators were: 'CBE partners and GBPs (*Gabay sa Bagong Pag-asa* or Guide for a New Hope Associations) have the right of "voice and exit"', and, 'ensuring the accountability and transparency of fair trade principles' which subsumed EMES indicator 9.

*10. CBE partners and GBPs (*Gabay sa Bagong Pag-asa* or Guide for a New Hope Associations) have the right of 'voice and exit'.*

The EMES indicator 'a high degree of autonomy from public authorities and private organisations that subsidise operations of the enterprise' was no longer included because SAFRUDI did not receive funding that could significantly influence its programs. An example of a first-level code under this indicator was 'GBP graduation'. From SAFRUDI's perspective, it means that GBPs have reached organisational maturity and would no longer require financial subsidies. GBP graduates would have to use their own income from group lending, or access other funding to support their activities. The ISDP, however, would continue to provide technical assistance and networking support. From the point of view of GBPs, graduation meant financial insecurity and organisational apprehension because some GBPs ceased operations after graduation. A code was created to reflect

the process involved in determining GBP's level of maturity; this second-level code was labelled 'enabling and disabling factors for GBP maturity and graduation'.

11. Ensuring the accountability and transparency of fair trade principles.

This fair trade principle replaced the EMES indicator 'a decision-making power not based on capital ownership but on one-member-one vote principle' since it was not relevant to SAFRUDI-CBE partnership. The fair trade principle also subsumed the EMES indicator 'a participatory nature, which involves parties affected by the activity to advance democracy at the grassroots level through economic activity' because the fair trade principle calls for participatory decision-making and transparency among FTO partners in all aspects of the fair trade enterprise, from the beginning of the supply chain to the end market. This indicator was scrutinised in terms of how it was practised and how it was understood by SAFRUDI and CBE partners. For example, the first-level code 'transparency in costing and pricing' turned out to mean two different things for SAFRUDI and CBE partners. Viewed from the perspective of CBE partners, the process of explaining their formula for computing the price of a product was a means of control to negotiate for a lower price. From the perspective of SAFRUDI management, the process was seen as a joint mechanism through which SAFRUDI, FTO buyers and CBE partners could negotiate for a competitive price without sacrificing the product's aesthetic qualities by tweaking certain production processes, modifying the design or replacing certain materials. From the perspective of some regular staff and PRWs, 'transparency in costing and pricing' was also understood as translating to a lower price. Hence, second-level categories 'transparency as a means of control to lower price' and 'transparency as joint mechanism for competitively-priced attractive products' were added.

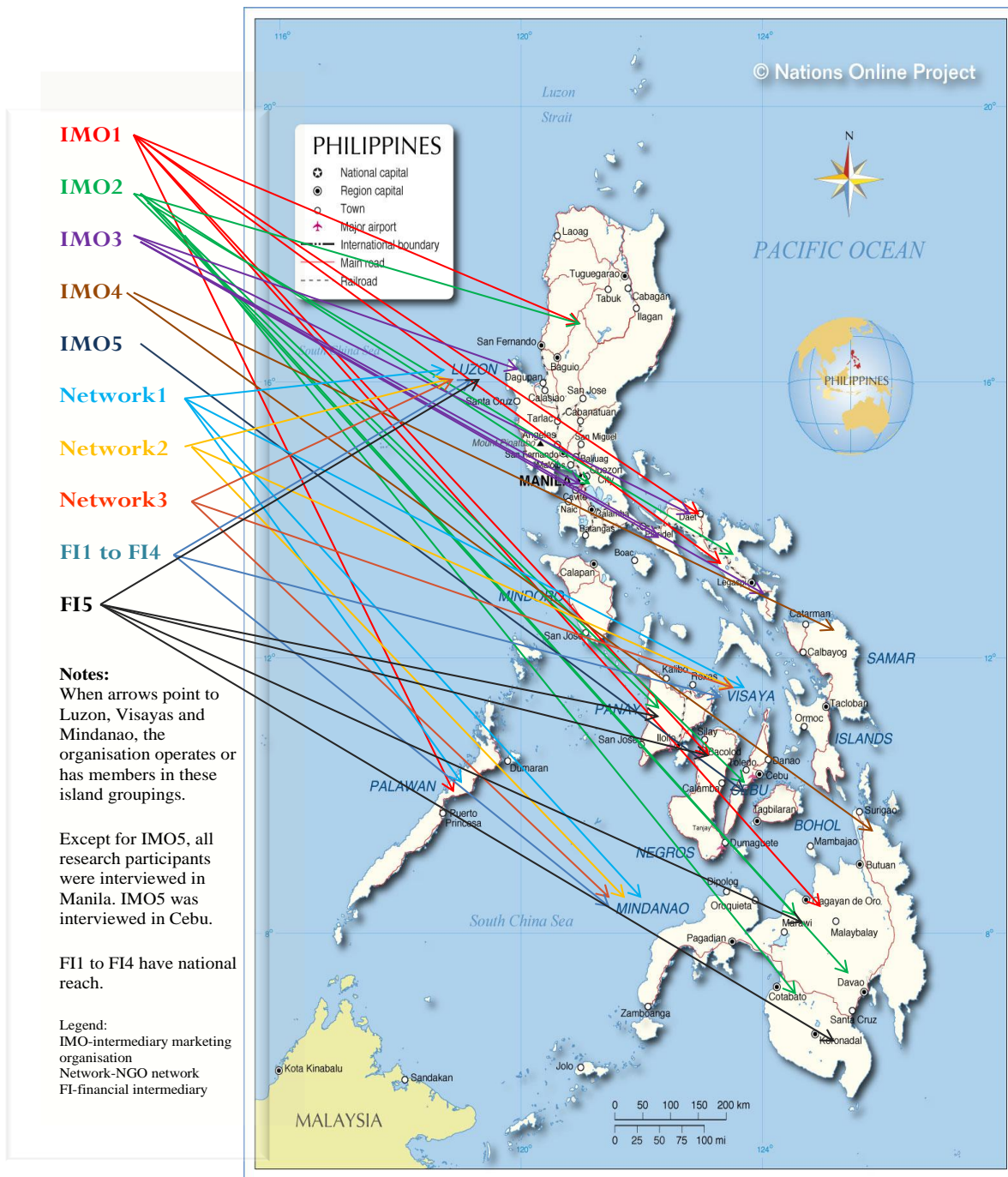
Stage 4: Case Study 2 – NGOs and civil society networks engaged in social enterprise

Selection of Case Study 2 participants

I invited 18 social economy organisations, whose development programs, including their social enterprise activities, I have some knowledge of, to participate in the study. Since I have been involved in development work for more than three decades, some of the people working in these organisations were colleagues or partners of development agencies I worked with in the past. In a cover letter differing slightly from the HREC-approved invitation letter to SAFRUDI and CBE partners, I e-mailed my invitation and research protocol. Of the 18 social economy organisations, 13 (72%) accepted my invitation to participate, one declined due to conflict of schedule, while four

did not respond. Except for one based in the Visayas, all of the social economy organisations were based in the National Capital Region but had social enterprise programs and partners that spanned the whole country. Figure 5.4 shows the geographic reach of the 13 social economy organisations participating in Case Study 2.

Figure 5.4: Areas of operation of Case Study 4 social economy organisation



Source of map: Nations Online Project, <http://www.nationsonline.org/oneworld/map/philippines-political-map.htm>

Profile of Case Study 2 participants

The social economy organisations participating in this study blended market and non-market activities. By legal form, they were incorporated as nonprofit, non-stock corporations (n=8); foundations (n=4); and secondary co-operative (n=1). By social enterprise function, they were classified as intermediary marketing organisations or SE IMOs (n=5); social economy organisations providing financial products and services through transfers (grants) and loans or SE FIs (n=5); and social economy networks or SENs providing non-financial social enterprise development services to NGO and PO members (n=3). Table 5.10 shows the distribution of the participating social economy organisations by legal form and social enterprise function.

Table 5.10: Case Study 2 participants by legal form and social enterprise function

Legal form	Social Enterprise Function			Total
	Intermediary marketing organisation (SE IMOs)	Social economy network providing non-financial social enterprise development services to members (SENs)	Financial intermediation through grants and loans (SE FIs)	
Nonprofit, non-stock corporation	3	3	2	8
Foundation	2	0	2	4
Co-operative	0	0	1	1
Total	5	3	5	13

By position, eight (62%) of the research informants were executive directors. The remainder were program managers (n=2), network coordinators (n=2) and president (n=1). By gender, male informants outnumbered female informants by one. Table 5.11 shows the profile of the research informants by position and gender.

Table 5.11: Case Study 2 informants, by position and gender

Position	Female	Male	Total
Executive director	4	4	8
Program manager	1	1	2
Coordinator	1	1	2
President	0	1	1
Total	6	7	13

Data collection

Semi-structured interviews

All of the research participants in Case Study 2 were interviewed using the semi-structured interview method. The research protocol guided the interview with some questions (Appendix J) more deeply elaborated by the interviewee than others (Appendix K). For example, on the 'social enterprise' concept and what it means, networks (n=3) that provided non-financial social enterprise development services, discussed it in relation to their societal vision and mission. As advocacy networks, they tended to view social enterprise as not for themselves but for NGOs and PO members. Thus the discussion delved more into the conceptual meaning of a social enterprise than on its practical aspects, in identifying 'who' the social enterprise was, role of external funders and their role in nurturing social entrepreneurship/social enterprise among members. Distinguishing themselves as a 'local funding agency', financial intermediaries (n=5) tended to associate social enterprise to NGOs and POs and the discussion centred on their understanding of the concepts 'social enterprise' and 'social entrepreneurship', their role in strengthening social enterprise and entrepreneurship and examples of organisations that received grants or accessed loans being run effectively as social enterprises. Among social economy organisations (IMOs=5) that pursued both market-oriented and non-market activities, the discussion focused on the challenges of becoming a social enterprise, role of external funders and the role of and relationship with CBE partners. Thus, the semi-structured interviews with managers of social economy organisations varied in focus and duration. Interviews lasted from more than one and-a-half hours to three. Twelve of the research participants were interviewed in their office while one requested an interview in a café.

Documents (secondary data)

For additional sources of evidence, I collected annual reports, newsletters, financial statements and research reports from the participating organisations (n=13). Some of these documents were given to me in hard copy, while others were downloaded from the organisation's website. The documents provided background information and supplemented interview data from Case Study 2 participants. Examples of information gathered from documents were funding donors, partnerships with public sector organisations and INGOs, market-oriented and non-market-oriented projects, number of beneficiaries and financial operations.

Data analysis

The data from the interviews (n=13) was also transcribed and encoded in NVivo 10 for data processing and analysis. Case Study 2 followed the same coding process applied to Case Study 1, where the first stage of coding was free-flowing. The second stage grouped words and phrases into second-level codes or categories that reflected the conceptual propositions of the EMES SE framework. As with the Case Study 1 and SE FTOs, this was done to test the fit of the synthesised framework to non-FTO SEOs. Since the social economy organisations interviewed comprised the two subsectors of the social economy, data analysis differed. For market subsector social economy participants, i.e., IMOs (n=5) and financial intermediaries (n=5), this meant applying the EMES SE dimensions and indicators in their enterprise operation or practise. Although the CBE partners of the three fair trade IMOs were not interviewed, the process of data analysis also incorporated the SE FTO approach of Huybrechts and Defourny (2008). For non-market-oriented research participants, i.e., networks (n=3), their understanding of the concept social enterprise and social entrepreneurship was interrogated against the EMES SE lens. Similarly, the conceptual understanding of market-oriented organisations (financial intermediaries=5) that identified themselves as not being social enterprise was also analysed through the EMES SE framework. Table 5.12 shows the EMES SE dimensions and indicators employed in analysing non-FT SEOs Case Study 2 data.

Table 5.12: EMES SE dimensions and indicators for Case Study 2 non-FTO SEOs

Dimension	Case Study 2 Indicators (9)
Economic/ entrepreneurial	<ol style="list-style-type: none"> 1. A continuous activity producing goods and/or selling services where advocacy is not the main activity. 2. A significant level of economic risk with sustainability dependent on workers and members to secure adequate resources. 3. A minimum amount of paid work while combining non-monetary and monetary resources and voluntary work.
Social	<ol style="list-style-type: none"> 4. An explicit aim to benefit the community at the same time promoting a sense of responsibility. 5. An initiative launched by a group of citizens or civil society organisations; this collective dimension must always be maintained even when led by an individual or a small group of leaders. 6. A limited profit distribution to inhibit profit-maximising behaviour.
Participatory governance	<ol style="list-style-type: none"> 7. A high degree of autonomy from public authorities and private organisations that subsidise operations of the enterprise; partners and members have the right of 'voice and exit'. 8. A decision-making power not based on capital ownership but on one-member-one vote. 9. A participatory nature, which involves parties affected by the activity to advance democracy at the grassroots level through economic activity.

Economic and entrepreneurial dimension

1. A continuous activity producing goods and/or selling services where advocacy is not the main activity.

An example of a first-level code for market subsector participants (IMOs) under this indicator was ‘we always tell our CBE partners to come up with new products, to innovate’. Again, this first-level code was tied to the second-level code ‘product development’ to ensure continuous production and selling of goods for IMOs. On the other hand, for financial intermediary NGOs, product development meant ‘developing new financial services for microfinance borrowers not reached by traditional MFIs’. Another aspect identified by IMOs regarding new products was ‘uniqueness and marketability’. This is underscored by IMOs selling organic agricultural produce to the domestic consumer market. If producers wanted their products to be carried by IMOs, they had to develop not only products grown in their community but also processed differently, e.g., powder concentrate versus fruit juice to compete in the market. In this sense, IMO CBE partners seemed to be more proactive than passive producers. Thus a higher-level category was created labelled ‘organic food producer sensitivity to consumer market demand; not IMO buyer demand-led’.

2. A significant level of economic risk with sustainability dependent on workers and members to secure adequate resources.

As regards this indicator, a recurring theme was ‘business practices that affect the financial viability of IMOs’. In the UK and Australian retail industry, for example, it appears that supermarkets pass on their economic risks through price discounts and longer payment terms to suppliers and manufacturers by exercising ‘buyer power’ against them (Mills, 2003, p. 145). Apparently, this ‘buyer power’ is also invoked by large Philippine supermarket chains against their local suppliers, big or small manufacturers and re-sellers. IMOs that marketed organic agricultural produce in Philippine supermarkets shouldered the risk rather than passed them on to CBE partners. Since it is unsustainable, IMOs are beginning to spread the risk to CBE partners but the challenge of transforming the retail industry practice remained. Thus, a higher-level category, beyond the economic and entrepreneurial dimension, was created. This is ‘transforming private business practices, e.g., buyer power’ to look at how Case Study 2 research participants tackled the issue of unfair economic practise.

For financial intermediaries, an example of a first-level code pertaining to economic risk was ‘loans not being re-paid by NGOs and POs’. From the data, the risk was found to be not only associated with loan default but also with loss of credibility because financial intermediaries served as conduits of external funders and government financial institutes for grant-making as well as for

microfinance lending. Hence, the risk was doubled. In order to ensure that borrowing organisations were able to pay, some financial intermediaries tied the loans to a package of soft (low-interest) institutional capacity-building assistance. Thus a second-level code was created labelled ‘forms of leveraging risks to protect financial resources and organisational integrity’. This code also encompassed other research participants who had found creative ways of protecting their social enterprise investment.

3. A minimum amount of paid work while combining non-monetary and monetary resources and voluntary work.

All of the Case Study 2 research participants had salaried staff. Board members were not paid but received modest honoraria when they attended board meetings. A key issue that is related to this indicator however was ‘capability and skills of management and staff to implement a social enterprise program’. This issue was also raised about CBE partners’ capability and skills to become a social enterprise. This issue was coded as a second-level code that was related to the code ‘who is the social enterprise?’ under participatory governance.

Social dimension

4. An explicit aim to benefit the community but at the same time promote a sense of responsibility at the local level.

Examples of first-level codes that fell under this indicator were ‘we found out that the social enterprise was not appropriate for our intended beneficiary’ and ‘some community groups were against our plans of putting up a supply store for our PO partners’. These two related codes were grouped under the second-level category ‘intended goals and beneficiaries and unintended consequences of social enterprise’. Another key first-level code was ‘triple bottom line’ to describe the objectives of the social enterprise. As a concept, ‘triple bottom line’ was coded as a higher-level category.

5. An initiative launched by a group of citizens or civil society organisations; this collective dimension must always be maintained even when led by an individual or a small group of leaders.

This indicator was found to be practised by all Case Study 2 participants. However, an analysis of the composition of the board appeared to show different combinations by different types of social enterprise. For example, one of the largest financial intermediaries was backstopped more by prominent board members from the private sector, while other Case Study 2 organisations have more board members from civil society and religious sector. Hence, a lone first-level code was ‘board composition by type of organisation’.

6. A limited profit distribution to inhibit profit-maximising behaviour.

With the exception of the co-operative federation, 12 of the Case Study 2 participants are non-profit distributing social economy organisations.

Participatory governance dimension

7. A high degree of autonomy from public authorities and private organisations ... and members have the right of 'voice and exit'.

One of the first-level codes that pertained to this indicator was the 'role of external funding agencies in the decision to go into social enterprise'. The reality of funding agencies withdrawing from the country has become a given for social economy organisations. Thus, the motivation for doing social enterprise development appeared to be to sustain the operations of the organisation rather than the social dimension of benefiting the community. Hence, the questions 'who is the social enterprise' and 'what is it for?' were coded as they are as second-level categories in participatory governance. These codes also related to the second-level category 'intended aim and beneficiaries and unintended consequences of social enterprise' under the social dimension.

8. A decision-making power not based on capital ownership but on one-member-one vote.

Under this indicator the three networks and the co-operative federation were found to be governed by this principle, while the other organisations were not.

9. A participatory nature which involves parties affected by the activity to advance democracy at the grassroots level through economic activity.

Examples of first-level codes identified under this indicator and juxtaposed against each other were: 'our co-op partners have developed their own local market that sometimes they could not supply us anymore with organic rice'; 'you have to know the market trend to compete, the consultative nature of decision-making with PO partners inhibits the ability of our aquaculture marketing officer to decide on the spot'; 'we have integrators or consolidators, also from PO partners, who are responsible for consolidating goods from household producers'; and 'an enterprise undergoes different development stages so the challenges may be different for each'. By juxtaposing these first-level codes, a second-level code was formulated to capture the 'nuances of participatory governance by type of enterprise and by development stage'.

Research ethics

This study was granted research ethics clearance on October 1, 2010 under expedited review by the Ethics Administrator of the University of Newcastle's Human Research Ethics Committee

(Approval Number HREC-2010-1205). The approved research protocol included both English and Filipino versions of the *Information Statement for the Research Project*, *Guide Questionnaire* and *Individual Consent Form for the Research Project*. Since the fieldwork involved the taking of photographs, audiovisual recording and possible use of photos and videos in the study and conference presentation, the *Consent Form* further provided for separate consent for recording and use. In inviting research participants, the research protocol was either e-mailed or sent by courier to SAFRUDI, CBE partners and social economy organisations.

Aside from the organisation, all individual research participants in Case Study 1 were given two sets of the research protocol, one for their records and one for the researcher. The number of research participants interviewed and observed during fieldwork at producers' associations, however, varied. Although I ensured that I had enough copies – five to 10 complete sets – of the research protocol, there were instances when I did not have enough for individual distribution in situations where there were no photocopying facilities. To mitigate this problem, CBE leaders were asked to sign the consent form on behalf of home-based worker-producers, who joined focus groups or were included in video recordings and group photos. Besides these technical issues, other ethical considerations in this study included confidentiality and informed consent and researcher reflexivity and empathy.

Confidentiality and informed consent

Case Study 2 research participants were e-mailed the same research protocol. Although they did not sign a consent form, they were informed that they and their organisations would not be named in the report. This confidentiality clause was also repeated and recorded prior to the interview. Hence, I did not seek an HREC variation. As a courtesy to the organisations, I also informed them of my use of their archived datasets and reports. Although these were openly available, the interview elicited additional information that was not included in the public version due to time lag, such as changes in the fortunes of featured best practices or details that were not uploaded on the Internet.

To ensure confidentiality, organisations, CBE partners and individual research participants were given aliases. Only SAFRUDI was identified in this study. Photographs and videos that contained identifying marks, such as labels of buyers, name of organisation and building markers, were not used in the thesis report or in any conference presentation.

Due to the number of interviews and large amount of data collected, I did not have time to send individual research participants their research transcript for feedback. However, before I left the Philippines, I ensured that all CBE partners in Case Study 1 had a DVD copy of group videos

and photos. I sent the copies through the representative of CBE partners present at the Annual Producers' Assembly or gave them to the owner of the family enterprise. In order to protect individual research participants, i.e., SAFRUDI staff and home-based worker-producers, interviews and focus groups were not copied onto the DVD.

Researcher reflexivity and empathy

Some commentators counsel case study researchers to be forthright with their emotions, ideology and decisions that might have affected the research process and report (Kleinman, 1991; Simons, 2009). Simons (2009) suggests different ways of writing the reflexive analysis. I chose to incorporate relevant aspects of my reflexivity into the case report. In addition, I was also aware that SAFRUDI workers and home-based worker-producers saw me as a sympathetic outsider who would listen to their frustrations. The workers saw my going up and down the three-storey building to interview them and observe production processes as proof of this. They commented that, in the past, management would go up to ask them how things were. But over the years the practice, had changed and the relationship had become distant. They said that they missed the easy social interaction between workers and management and the mutual trust it fostered.

Among CBE partners, on the other hand, staying in the CBE centre was a sign of solidarity. Although they worried about my staying alone in the centre due to Filipinos' traditional fear of malevolent spirits at night, I assured them that I would be fine. One CBE partner that was a little apprehensive about the state of the centre was glad that I had chosen to stay. It turned out that researcher-evaluators commissioned by funding donors had preferred more comfortable accommodation. I 'paid' CBE partners for my accommodation. Since I seemed to have embarrassed the leaders of my first CBE fieldwork when I informed them about it, the word 'donation' was used in informing subsequent CBE partners. Traditional Filipino hospitality requires that guests should be treated with utmost courtesy and provided the best that the host can offer including his or her own bed and food. The hospitality is reciprocated when the roles are reversed. As an outsider, donation somehow connoted reciprocity and lessened possible loss of face.

Conclusion

This chapter has described the study's methodology in testing the propositions of the plural economy approach and related explanatory concepts to social economy, first at the broader Philippine social economy as the *phenomenon* under study and the national policy, political dynamics, social structures and economic factors forming the *context* in which the two *case studies* of particular

organisations took place. For the two case studies, while data collection and data analysis were guided by the synthesised concepts, the structure used to analyse data was primarily based on the EMES SE concept. However, following Huybrechts and Defourny (2008), the EMES SE concept was blended with the 10 FT principles to structure the data analysis of the FTOs in Case Study 1 and Case Study 2; while only the EMES SE concept was used to structure data analysis of non-FT SEOs in Case Study 2. The purpose for structuring data analyses through the EMES SE concept was to see how the synthesised frameworks fit Philippine social economy organisations.

The structuring of data analysis through the EMES SE framework exposed its strengths and limitations. The process showed that the EMES SE dimensions and indicators had to be applied flexibly to capture the themes and issues identified by research participants. But it also provided an opportunity to be ‘entrepreneurial’, that is, to be ‘creative’ academically as commentators have advocated. The turn to flexibility was similar to the approach employed by Huybrechts and Defourny (2008) to account for the variations found in practice vis-à-vis theoretical concepts. These do not necessarily invalidate the theory itself but highlights instead the challenges inherent in SEOs as hybrid organisations. The fit of the synthesised understandings of the social economy (Figure 3.2 and 3.3) and organisations comprising it (Figure 3.6) will become much clearer during the discussion of findings presented in Chapters 6 to 9. Chapter 6 reports on the findings related to the profile of the Philippine social economy; Chapters 7 and 8 present the findings of Case Study 1; while Chapter 9 presents the findings of Case Study 2.

Chapter 6

Findings 1: Philippine social economy through the plural economy framework

This chapter reports on the findings relating to the Philippine social economy: (i) the historical roots and nature of the sectors it comprises, i.e., the way in which it is structured and organised and the legal framework that supports it; (ii) the discourses that construct it; (iii) the most influential social actors and how they exert their influence; and (iv) its contribution to the economy. The phrases ‘third sector,’ ‘social economy’ or ‘nonprofit sector’ used in the models described in Chapters 2 and 3 are not commonly used in the Philippines to describe the diverse organisations comprising the social economy. Although of recent vintage, the term most commonly used in the Philippines is ‘civil society’, as shown in Chapter 4 (Coronel Ferrer, 1997; Serrano, 1994).

While the Johns Hopkins study tried to limit the scope of Philippine civil society activity to the ‘space between the market and the state’ (Cariño, 2002a, p. 25), Philippine authors demonstrate that this fluid and ambiguous concept is not confined to non-state and non-market organisations but is an arena of politics, power, conflict, contention and negotiation (Coronel Ferrer, 1997; Silliman & Garner Noble, 2002b). This is perhaps why the authors of the Johns Hopkins study in the Philippines took great pains to explicate the complex configurations, political character and adversarial nature of the country’s civil society actors vis-à-vis the public and private sectors (Cariño & the PNSP Project Staff, 2001). Furthermore, legal prescriptions do not preclude organisations from implementing projects outside their core mandate. So, co-operatives might, for example, partner international development agencies engaged in environmental conservation and advocacy (Philippines-Australia Community Assistance Program, 2002, 2008). Hence, it is necessary to employ a variety of theoretical lenses to capture the complexity of Philippine civil society.

Internationally, European understandings of the social economy through the plural economy approach and its explanatory concepts have emerged as the framework of choice for the study of the social economy and social enterprise approaches to sustainable social development but, as yet, these have not been applied to the study of the social economy in the Philippines. This study attempted to redress the imbalance by using the plural economy framework and allied explanatory

concepts, such as hybridisation, fair trade as hybrid market form, the EMES SE concept and its application to fair trade organisations, as basis for analysis to allow for international, cross-country comparisons. As outlined in Chapter 3, the plural economy framework synthesises theories drawn from various social science disciplines and offers a holistic, integrated approach to the study of the social economy. It posits that in pursuing their social mission to deepen economic democracy and promote sustainable social development, SEOs are active in three poles of the economy – the community/household, public/state and private/market sectors and the market and non-market subsectors (Evers & Laville, 2004b; Laville & Nyssens, 2001). The tripolar approach views SEOs as hybridising social capital, blending solidarity and civil society norms and values with standards and values associated with the market and the state.

As hybrids, SEOs are further categorised into market-oriented SEOs and non-market-oriented SEOs. Social enterprises, including older families of self-help associations, are seen to be part of the market-oriented subsector and are defined by the EMES SE concept in terms of their economic, social and political dimensions, i.e., their entrepreneurial activities, social mission, and participatory governance structures. Thus, the EMES SE concept is acknowledged as offering a unifying and transportable framework that can be applied internationally.

The survey of Philippine literature showed that, although there is a nascent theorisation of social enterprise, there is, as yet, no overarching framework to integrate the various forms of organisations and the sectors comprising the social economy that have emerged. The literature review discussed in Chapters 2-4 underscored the importance of understanding the structural causes of poverty and revealed that, despite the explosion of international studies on the social economy and diverse conceptual approaches they have generated, the field remains open and pre-paradigmatic in that there is still a lack of scientific consensus among scholars on the best approach for the study of SEOs that blend a social mission with for-profit objectives (Nicholls, 2010; Young, 2009, 2012).

There is an urgent need for empirical data that demonstrates the effectiveness of the social economy in promoting sustainable economic enterprises, social development and participatory structures of governance, given its aim to allow all citizens to play an active role in and benefit from, the economy. Given the haste with which social enterprise is being promoted as the new development model for poor countries by international aid agencies and national governments, the need for sound empirical evidence is all the more urgent. There has, as yet, been no follow-up study of the Filipino social economy since the University of the Philippines/Johns Hopkins University nonprofit sector study in 1998 (Carino, 2002; Carino & the PNSP Project Staff, 2001). This is the first study to examine these diverse organisations and the relationship between them.

The first part of the chapter takes off from Chapter 4 and briefly outlines the reasons for the historical emergence of a definable social economy. The second part presents the findings from the secondary data analysis structured according to the plural economy framework:

1. *State/planned sector* – this section presents the legal and regulatory framework that rationalised state/civil society or SEO partnerships and the various state/civil society partnerships that it spawned.
2. *Market sector* – this section presents the participation of for-profit corporations as conduits of microfinance programs for the poor institutions and as state partners in governmental bodies and agencies.
3. *Community/household sector* – this section reports on the social configurations of the community/household sector serving and benefiting from the social economy.
4. *The Philippine social economy* – this section discusses the major findings on the Philippine social economy. It reports on the structure of the Philippine social economy; the social enterprise discourse and understanding of the social economy; taxonomy of SEOs comprising the social economy; the hybrid organisations that emerged; the social and economic contribution of the social economy; hybridisation and organisational isomorphism processes; and the challenges of bringing back in critical voices of civil society.

Part 1: Historical roots of the Philippine social economy

Chapter 4 demonstrated just how heavily interwoven the contemporary Philippine social enterprise narrative is with the discourse of ‘civil society’ and traced the development of Philippine civil society during the post-Marcos period, when the social economy began to emerge. While the peaceful People Power Revolution of 1986 ushered in the growth of the Philippine civil society movement, it may also be argued that the emergence of a definable Philippine social economy can be traced to this period when political advocacy organisations with income-generating activities and small lending programs transformed themselves into development-oriented NGOs (Constantino-David, 1997; Sicat & Graham, 2006; Songco, 2007; Villanueva, 1998). Commentators write that the opening up of the democratic space and the massive outpouring of official development assistance (ODA) during the post-Marcos period contributed to their transformation. Politicised NGOs looking for alternative visions of society, politics and economy were suddenly provided with an opportunity to translate them into reality and international funding agencies and ODA donors, with varying motivations, were more than eager to support them.

While there was an international goodwill to see civil society and the Cory Aquino government succeed, other interest groups, such as international lenders, were wary of nationalist sentiments that could jeopardise their economic interests and the free market. From the civil society and ODA literature, it appears that ODA money was used to channel the energy of civil society away from more contentious politics to engagement (or contracting) with the state and donors. Thus, in addition to civil society actors, the State and the Church, it may be concluded that other social actors responsible for the emergence of the social economy included ODA donors, foreign governments, and international NGOs.

With an enlarged group of social actors, the Philippine social economy endeavoured to continue the social construction project of creating rational economic agents out of the rural poor that was begun during the early American colonial period. Also, it was employed to institutionalise the project of privatising social services. While in the past the tradition of engaging religious charities and private organisations was due to the absence of a state apparatus, the practice conveniently dovetails with the new public management discourse. Aside from NGOs contracting with the State, other SEOs, such as microfinance institutions, also emerged to complement existing co-operatives as conduits of ODA funds for agricultural credit and agrarian reform programs. However, with many SEOs dependent on external funding, the tapering off of ODA money exposed them to financial uncertainty. Hence, the concept social enterprise, developed along with socioeconomic metrics to prove their social value, gained currency as an alternative to external funding. The fair trade movement, however, appeared to emerge independently of other social enterprise initiatives.

Chapter 4 also showed that whereas SEOs emerged largely as a response to socioeconomic disadvantage in the West, the social actors involved in the evolution of Philippine civil society and the social economy have been more varied and belligerent due, in large part, to the country's colonial history. With the change to a more democratic society in 1986, the Philippine civil society seems to have given birth to various types of organisations that structure the Philippine social economy. The findings of the secondary data analysis are now presented in Part 2.

Part 2: Philippine social economy profile through the lens of the plural economy

1. State/planned sector

As discussed in Chapter 5, the 1987 Philippine Constitution enshrined the participation of civil society organisations, such as NGOs, POs, and other associations, for nation-building tasks as well

as for ensuring democratic governance and transparency in the public sector. Towards these ends various laws have been promulgated mandating their representation in local governance bodies, regional and national development councils and public corporations. The state legislates for and governs the social economy and establishes the main institutional structures for social and agrarian reform and poverty alleviation program where basic sector participation is assured. The most important legislation that mandates civil society partnership and representation in these institutional structures includes the:

1. Commission on Audit mandated in terms of Article IX Section 2.1 (d) as the sole state agency regulating the terms and conditions for public and NGO-PO partnerships.
2. Local Government Code of 1991 that provides for partnerships between government and CSOs.
3. Social Reform and Poverty Alleviation Act of 1997 (SRA) and its 2011 amendments that establishes the main state body to assist the most disadvantaged sectors.
4. Magna Carta for Micro, Small and Medium Enterprises (MSMEs) that regulates private sector partnerships.
5. Philippine Co-operative Code of 2008 that regulates the supervision of co-operatives.
6. Agri-Agra Reform Credit Act of 2009 that regulates financial assistance to farmers.
7. Other laws governing SEOs.

Each is now discussed in turn in order to show how these separate pieces of legislation form the legal framework for the Philippine social economy and mandate SEO participation in nation-building.

1. Commission on Audit

The 1987 Constitution mandated the COA to audit ‘nongovernment entities receiving subsidy or equity, directly or indirectly, from or through the Government, which are required by law or the granting institution to submit to such audit as a condition of subsidy or equity’ (Article IX Section 2.1 (d)). The most recent COA circular (2007a) provides for the types of projects that government organisations (GOs) can contract out to NGOs and POs on the assumption that these are ‘beyond the capability of the GO’. These projects include: (i) livelihood development; (ii) manpower development (sic); (iii) sports development; (iv) co-operative development; (v) delivery of basic services; (vi) environmental protection; (vii) agricultural and fisheries diversity; (viii) rural industrialisation; (ix) development of local enterprises; (x) social services in areas that would not be ordinarily undertaken by the private sector; and (xi) construction, maintenance, operations and

management of infrastructure projects, such as housing projects for the poorest of the poor and school buildings.

Bidding SEOs must provide proof of their capacity to implement government projects and go through the COA's stringent bidding process to win a public sector contract. In particular, they must have been in existence for a minimum of three years and have an 'equity equivalent to 20% of the total project cost, which may be in the form of labour, land for the project site, facilities, equipment and the like to be used in the project' (COA, 2007a, p. 7).

2. Local Government Code of 1991

The Local Government Code of 1991 provides for the partnership, e.g., joint venture, funding, between local government units and civil society organisations (Chapter 4, Section 34-36) and their representation in development councils at the *barangay* (village), municipal or city and provincial levels. The number of NGO or PO representatives must not be less than a quarter of the total number of members of the council at each level (Title Six, Section 107 (a-c)).

3. Social Reform and Poverty Alleviation Act of 1997 (SRA)

The SRA established the National Anti-Poverty Commission (NAPC), the main state body charged with governing the needs of the most disadvantaged sectors (Section 3). It is essentially a coordinating body that makes recommendations to the government on the implementation of its social reform and poverty alleviation programs and does not have supervisory or executive powers. Its board includes heads of national government agencies, the People's Credit and Finance Corporation (PCFC), Presidential Commission for the Urban Poor and presidents of local government units, such as the League of Provinces, League of Cities, League of Municipalities and *Liga ng mga Barangay* (League of Villages) and basic sector representatives (Section 6).

The most disadvantaged sectors, also called 'basic sector', of Philippine society whom the SRA (1997) is designed to assist are artisanal fisher folk, children, farmers and landless rural workers, Indigenous Peoples and cultural communities, urban poor, migrant workers, people with disabilities, senior citizens, victims of disasters, women, workers in the formal and informal sectors and youth and disadvantaged students. The NAPC is the medium through which people's organisations, NGOs and co-operatives serving the basic sectors access public sector funds and work in partnership with state agencies in pursuing their social and economic goals. The NAPC has enabled SEOs, in behalf of the state, to deliver basic social services, implement agricultural credit and microfinance programs and undertake any of the projects identified in the COA circular.

The SRA law has made microfinance the centrepiece for social reform and poverty alleviation. The law mandates the People's Credit and Finance Corporation (PCFC) to lead

government credit provision for the poor. As a government corporation, PCFC accesses low interest ODA and foreign investors' money for re-lending to SEOs, e.g., NGO MFIs, co-operative banks, and commercial banks. Aside from PCFC, five other state-owned or controlled corporations streamlined their operations to meet the financial requirements of the basic sectors: the Land Bank of the Philippines (LBP), National Agribusiness Corporation (NABCOR), National Livelihood and Development Corporation, Quedan and Rural Credit Guarantee Corporation, and Small Business Corporation. The SRA is further discussed in the *Community/household sector* section.

4. Magna Carta for Micro, Small and Medium Enterprises (MSMEs)

Section 2 (h) of the Magna Carta for Micro, Small and Medium Enterprises provides for the private sector to be a 'partner in the task of building up MSMEs through the promotion and participation of private voluntary organisations, viable industry associations and co-operatives'. Section 8 also mandates the representation of organisations in the Micro, Small and Medium Enterprise Development (MSMED) Council tasked to oversee policy implementation and planning. The MSMED Council is under the Department of Trade and Industry. The MSMED Council includes, among others, representatives from the MSME sector (nine), labour sector (one) and private banking sector (one). In addition, the Small Business Corporation was created to provide financial and business development services to MSMEs (Section 13).

5. Philippine Co-operative Code of 2008

The Philippine Co-operative Code of 2008 consolidates and centralises the regulation and supervision of all types of co-operatives in the Co-operative Development Authority (CDA). Republic Act No. 6939 of 1990, which created the CDA, provided for the chair and governing body to be composed of representatives (six) from the co-operative sector (Section 4).

6. Agri-Agra Reform Credit Act of 2009

This law governs public and private financial institutions providing financial services to *inter alia* farmers, fishers, agrarian reform beneficiaries, organisations and associations and co-operatives (Section 4). In particular, commercial banks are mandated to invest or lend wholesale to rural financial institutions, such as the MABS-participating rural and thrift banks (discussed in *Market sector* section). The law is also aligned with Republic Act 8435, which provides for the participation of co-operatives, NGOs, rural banks, MFIs and POs in the Department of Agriculture's microfinance program for the agricultural sector.

7. Other laws governing SEOs

To be part of the social economy, so that records and measures of its effectiveness can be maintained, it is necessary to register as legal, formal organisations. Registration takes place in various ways. The main registering authorities are:

1. *Securities and Exchange Commission* registers non-stock, non-profit corporations, savings and loans associations and foundations. The first type is the legal form generally taken by NGOs and POs.
2. *Co-operative Development Authority* registers all types of co-operatives, including federations of co-operatives.
3. *Department of Labour and Employment* registers trade unions and self-employed workers' associations.
4. *Department of Social Welfare and Development* registers and accredits organisations with licensed social workers.
5. *National Council on Disability Affairs* registers organisations of people with disabilities and organisations providing support to them.
6. *Housing and Land Use Regulatory Board* registers homeowners' associations.

Aside from these main registering bodies, it is possible to become a *bona fide* SEO by registering with local government units and, in the case of Indigenous Peoples' organisations, with their tribal council of elders. Aside from the legal requisites, formal registration or accreditation provides incentives to SEOs since it qualifies them to bid for and win government contracts and receive subsidies, grants or donations from the State and external funding agencies. For ODA-funded projects, the NEDA is the lead government agency that regulates NGO-PO partnership with ODA-funded state projects or with the NGO representative or NGO unit lodged in the donor's consular office (NEDA website).

Extent of public sector-civil society partnership

An analysis of the annual financial and performance audit reports of 35 state agencies, state-owned or controlled-corporations, commissions and state financial institutions between 2006 and 2010 prepared by the Commission on Audit revealed an extensive sub-contracting industry among SEOs and for-profit corporations throughout the country. They included every type of organisation ranging from unregistered people's organisations to co-operatives, commercial banks, private financial corporations and private higher educational institutions. The COA data showed that between 2006 and 2010, state agencies and corporations extended a total of PhP66.1 billion (AUD1.4bn) in contracts, subsidy and grants and donations to various SEOs. On top of these contracts and subsidies, COA records show that six state-owned financial institutions have a total

loan exposure of PhP105 billion (AUD2.5bn) in 2010 to SEOs acting as financial conduits for development programs for the poor. These include, *inter alia*, loan facilities for agrarian reform beneficiaries' co-operatives, farmers' associations, micro, small and medium enterprises, artisanal fisher folks and others. Table 6.1 shows the breakdown of the financial transactions of SEOs with the public sector.

Table 6.1: State contracts and financial assistance provided to SEOs (2006–2010)

Account	Amount in PhP
Due from NGOs and POs, 2010	6,911,678,662
Subsidies to NGOs/POs, from 2006-2010	974,302,476
Grants and donations, from 2006-2010	58,246,430,630
Loans receivables of state-owned financial institutions from microfinance conduits, 2010	104,738,042,834
Grand total	170,870,454,601
AUD	4,020,481,285

Source of basic data: Commission on Audit

Some of the PhP6.9 billion due from NGOs and POs date back to the early 1990s and the contracting NGOs and POs were no longer existent. Additionally, COA records showed that a portion of the funds owed by microfinance conduits to the financial institutions might not be recoverable. Hence, it seems that these SEOs were not vetted by contracting public sector organisations. Unaccounted funds and loan defaults imply an increase in the country's debt burden. Although ODA funds and soft loans from multilateral agencies carry lower interest rates, they are, nonetheless, sovereign debt that would be paid for by the Filipino public.

Legislated gaming and lottery funds for charities

As demonstrated in Chapter 4, the state has always depended on private charitable associations and religious charities to deliver social services to disadvantaged sectors, such as orphans, sexually abused girls, and abandoned elderly people. However, rather than 'sub-contracting' or outsourcing of public services, the state uses the term 'financial assistance' to demonstrate government benevolence (Doyo, 2011a). Since the early 1900s, lottery and gaming rather than taxation has been the main source of funds for social services and charitable organisations (Bankoff, 1991; Philippine Charity Sweepstakes Office, n.d.). Although this has continuously posed a moral and ethical dilemma for religious charities, the State has employed the distribution of charity funds as a carrot-and-stick approach for political convenience. Of the 112 charitable organisations receiving funds from the PCSO, 53 or 50% were religious charities (Esplanada, 2011). In 2011, a controversy involving Roman Catholic bishops, who were accused of receiving expensive vehicles

from ex-President Gloria Macapagal-Arroyo and the PCSO, resulted in the Catholic Bishops' Conference of the Philippines severing funding ties with public corporations engaged in the gaming industry (David, 2011; Esplanada, 2011; UCANews, 2011). Between 2006 and 2010, the charity fund from the PCSO totalled PhP28 billion (AUD667mn).

The PAGCOR, which was justified to raise additional sources of revenue for the poor, boasts that it is the 'third largest revenue-generating arm of the government' (PAGCOR, 2010, p. 8). In 2010, PAGCOR reported a net income of PhP31.46 billion (AUD740.23mn). It contributes more than half of its annual income to the government's development programs for the marginalised sectors.

Table 6.1 shows that SEOs are financially dependent on state support and, due to widespread poverty the privatisation of public services is no longer a debatable issue. Instead, contracting with and/or receiving subsidies from the state are viewed as proof of democratic participation and of an empowered citizenry rather than a failure of state provision.

2. Market sector

Commercial banks, e.g., rural and thrift banks engaged in low-cost microfinance services are 100% for-profit corporations. They target a broader clientele that includes micro-entrepreneurs, government employees, landowning agricultural producers and families of overseas Filipino workers, among others. Rural and thrift banks that participate in the Microenterprise Access to Banking Services (MABS) program funded by the United States Agency for International Development (USAID) are among the microfinance conduits of public sector financial institutes. The MABS program began in 1998 is the private sector counterpart of the USAID-funded Credit Union Empowerment and Strengthening (CUES) program for co-operatives (see discussion on *Microfinance institutions* under the section *Structure of the Philippine social economy*). According to the USAID, 100 rural banks with 550 branches in the countryside are involved in the MABS program (USAID, 2013). As of June 2009, they have extended over two million loans totalling PhP24.7 billion (USD511mn) to more than 640,000 new bank borrowers.

While privately-owned schools, colleges and universities may be non-stock, non-profit educational foundations, the majority are market-oriented. Hence, they are located in the market but close to the boundaries of the non-profit and public poles. The reason for their location near the boundary of the public pole is that they receive grants and subsidies from the Commission on Higher Education, a state agency (COA, 2011a).

3. Community/household sector

The community/household sector, the lifeworld of the poor, comprises unregistered people's organisations, self-employed micro-entrepreneurs, informal homeworkers, producers' associations, and families and households of overseas Filipino workers and migrants. While the organisational goals of the different types of civil society and SEOs in the Philippine social economy varies, economic empowerment and social development falls within the State's social reform and poverty alleviation development goals.

Although contested, the State defines 'social reform' as 'the continuing process of addressing the basic inequities in Filipino society through a systematic, unified and coordinated delivery of socioeconomic programs or packages' (Section 3. (s) of the 1997 Social Reform and Poverty Alleviation Act). 'Poverty alleviation' is defined as 'the reduction of absolute poverty and relative poverty' with absolute poverty 'the condition of the household below the food threshold level' and relative poverty 'the gap between the rich and the poor'. Given the poor comprise individuals and families whose income falls below the NEDA poverty threshold, poverty alleviation does not simply mean addressing economic inequities but also responding to the visceral, psychological, social and cultural needs of the poor.

The official unemployment rate for 2012 was 6.8% even though the GDP grew by 6.6 % in that year. From 2000–2009, the Philippine economy grew by 3.2% on average annually but this growth did not translate into more jobs. Unemployment in the Philippines has been high at around 7.5% to 8.0% since 2006. Using data from the Department of Labour and Employment, self-employed and unpaid family workers comprised 45% of the 'employed' labour force of 37.2 million, i.e., 16.74 million people. The Philippines has complex business procedures, poor tax and customs administration, weak protection against expropriation and high energy costs. Due to its inability to attract more foreign, direct investments in a weak investment climate, job creation has proved difficult. Hence the poverty rate has remained relatively constant over the years.

Among the poor sectors, the artisanal fishers are poorest, followed by farmers, children, women and self-employed and unpaid workers. Together with the poor about 41% of the population are beneficiaries and stakeholders in the social economy and of the state. Table 6.2 shows the poverty incidence by sector using the 2003 and 2011 measures.

Table 6.2: Poverty incidence by sector (2006 and 2009)

Basic Sector	Poverty Incidence	Magnitude of Poor Population	Poverty Incidence	Magnitude of Poor Population
	2006 ^a		2009 ^b	
Philippines	32.9	27,616,88	26.5	23,142,481
Women	30.1	12,806,177	25.1	11,169,745
Youth	25.4	5,925,823	21.8	5,367,308
Children	40.8	14,405,899	35.1	12,414,811
Senior citizens	20.3	1,297,159	15.8	1,181,121
Individuals in urban areas	16.1	6,852,965	12.8	5,709,170
Migrant and formal sector workers	19.5	3,229,424	16.7	3,118,701
Farmers	44.0	2,095,646	36.7	1,685,148
Artisanal fisher folk	49.9	482,477	41.4	346,345
Self-employed/unpaid workers	n/a	n/a	29.0	4,186,194
Employed population	n/a	n/a	22.4	7,880,786
Unemployed population	n/a	n/a	17.3	465,106

Source of data: National Statistical Coordination Board

Notes: ^a Using the 2003 poverty incidence measurement. ^b Using the 2011 poverty incidence measurement

Although not commonly acknowledged, the social reform and anti-poverty mission goes back to the early social construction project of creating a modernising middle class embodying western political, socioeconomic values and norms but without fundamentally changing the deep social structures that perpetuate poverty. Poor women in particular are the main target beneficiaries of microfinance institutions (Microfinance Council of the Philippines Inc., 2010). Based on MixMarket data, out of almost three million microfinance borrowers in 2010, 78% or 2.3 million were poor women.

Table 6.3 shows that the microfinance industry is a profitable and burgeoning industry. An upward trend in the number of poor women borrowers and funds available for lending can be observed. For example, the number of women borrowers in 2010 was more than twice the figure of 1.1 million borrowers in 2006. Similarly, the 2010 gross loan portfolio more than doubled the USD307 million portfolio in 2006. However, its annual growth seems to have slowed down since the global financial crisis in 2008.

While faith-based charities target orphans and abandoned street children and other disadvantaged sectors, they incorporate families and communities in combating social issues (Department of Social Work and Development, 2012). Co-operatives, however, are made up of the various members of the marginalised sectors. Although leading co-operatives have outgrown their parish confines, religious groups continue their co-operative organising among the poor (Episcopal Church in the Philippines, n.d.-b; Jensen, 1982; UCANews, 1992; 2008). Faith-based or religious-affiliated NGO MFIs are also among the biggest in the country (Microfinance Council

of the Philippines, 2010). These include *Tulay sa Pag-unlad* (Bridge to Progress) and its several regional expressions, e.g., *Rangtay sa Pagrang-ay* in Northern Luzon; ECLOF Philippines Foundation; *Aakay ang Milamdec* Microfinance Foundation; Centre for Community Transformation Co-operative; Serviamus Foundation; and Ad Jesum Development Foundation.

Table 6.3: Number women borrowers and gross loan portfolio of MFIs (2006–2010)

Year	Women borrowers	% of Active borrowers	Growth rate (%) of women borrowers	Gross loan portfolio (in USD)	Growth rate (%) of loan portfolio
2010	2,338,240	78%	6%	646,391,194	1%
2009	2,206,494	78%	54%	641,598,595	16%
2008	1,434,645	60%	10%	552,566,627	16%
2007	1,305,033	70%	17%	475,350,982	55%
2006	1,111,574	69%	25%	306,773,292	17%

Source of data: MixMarket

The Filipino diaspora consisting of overseas workers and migrants is estimated to number 12 million (Philippine Daily Inquirer, 2012). They have fuelled the boom in real estate and the growth of malls all over the country. And, without foreign remittances boosting the country's foreign reserves, the state would be hard pressed to service its huge foreign debt. Since their first deployment in the early 1970s, labour has become the top dollar-earning export trade of the Philippines. It has even outperformed net direct foreign investments in the Philippines (Bangko Sentral ng Pilipinas, 2012). Total remittances from 2003 to 2011 amounted to USD126,683 million. Together with the informal sector, overseas Filipino workers and migrants buoy up the Philippine economy.

4. The Philippine social economy

This section will now report on the structure of the Philippine social economy; the social enterprise discourse and understanding of the social economy; the taxonomy of SEOs comprising the social economy; the hybrid organisations that emerged; the social and economic contribution of the social economy; hybridisation and organisational isomorphism processes; and the challenges of bringing back in critical voices of civil society.

Structure of the Philippine social economy

As already written, the Philippine civil society was instrumental in widening the democratic space after the 1986 People Power Revolution. Four types of organisations that sprung from civil society were found to structure the social economy:

1. NGOs and people's organisations contracted to government engaged in market-related activities.
2. Microfinance institutions, including co-operatives and private rural banks.
3. Foundations established through debt-to-equity swap arrangements and endowments.
4. Social enterprises.

1. NGOs and POs contracted to government

Big NGO networks, such as the Caucus of Development NGO Networks (CODE-NGO) and people's organisations, became the first service delivery providers to contract for state ODA as part of the agrarian reform and rural development program across the country (Caucus of Development NGO Networks [CODE-NGO], 2000; Lopa, 2003; Official Development Assistance Watch, 2005; Songco, 2007). Their motivation for doing so was seen as a 'strategic move to deliver services and assist in the development process in areas where they operate' (Official Development Assistance Watch, 2005, p. 3). Commentators argue that ODA also opened the floodgates to mercenary NGO contractors who wanted a piece of the ODA pie (Constantino-David, 1998; Songco, 2007). Estimates of the number of civil society organisations during this period ranged from 15,000 in 1992 (Brillantes, 1992, in Tũaño, 2011) to 497,000 in 1998 (Cariño, 2002b). Constantino-David (1998) came up with an NGO and PO classification bordering on satire to highlight her point. Examples include DJANGO for development, justice and advocacy NGOs, TANGO for traditional NGOs, including charities, and GRINGO for government-run and -initiated NGOs.

Gonzalez (1998, in Songco, 2007) estimated that from USD908 million in 1986, ODA peaked to USD2.725 billion in 1991. He writes that NGO co-financing schemes alone were worth USD56 million annually. However, the transformation of advocacy organisations into development-oriented NGO contractors for ODA projects was not without painful consequences to the Philippine civil society movement (Africa, 2009a; Coronel Ferrer, 1997; Miles Jones, 2009; Silliman & Garner Noble, 2002b). Critics argue that ODA contracting couched in such terms as 'strategic partnership' or 'tripartism' was a means to disarm the Philippine protest movement. Although there may have been a genuine desire from traditional funding agencies for NGO development work to succeed, the massive inflow of ODA funds kept the cash-strapped Aquino government from pursuing economic policies beneficial to the people but detrimental to the free market. For example, if politicised NGOs and POs had succeeded in their call for debt repudiation in 1986, foreign banks and multilateral lending agencies that loaned onerous debts to the Marcos regime and his business cronies would have lost tens of billions of dollars (de Hoyos, 1986; Ocampo, 1987 1987). Thus, ODA donors tied the participation of NGOs as a precondition for the

Aquino government's access to ODA funds (Official Development Assistance Watch, 2005). After 1991, however, the ODA flow began to taper off and NGO and PO contractors had to compete and look for other sources of funds to sustain their operations (CODE-NGO, 2000).

Because ODA is a government-to-government assistance program, donor governments coursed some of their ODA funds through NGOs in their respective countries. These international NGOs, in turn, established partnerships with Philippine NGOs. Examples of this form of partnership were: the Philippine Development Assistance Programme, a consortium of Filipino and Canadian NGOs supported by the Canadian International Development Agency in 1986 and PACAP in partnership with various Philippine NGOs set up by the Australian Agency for International Development in 1986.

2. Microfinance institutions

In a parallel development, NGOs providing small lending projects in the late 1980s, such as the Centre for Agriculture and Rural Development (CARD) and *Ahon sa Hirap Inc.* (ASHI) provided group lending similar to the Grameen micro-lending program. In 1989, 27 NGOs and co-operatives partnered with the Agricultural Credit Policy Council to implement the Department of Agriculture's Grameen Bank Replication Project for agrarian reform farmers (Sicat & Graham, 2006). Riding on the success of NGO microfinance institutions (NGO MFIs), the USAID funded the first of the Credit Union Empowerment and Strengthening (CUES) programs in 1997 to strengthen the lending and savings program of 12 co-operatives in Mindanao (Sicat & Graham, 2006). The program is now on its third extension with the World Council of Credit Unions as lead implementing agency (USAID website). Back to back with the CUES program, the USAID also funded the Microenterprise Access to Banking Services (MABS) in 1998, which allowed rural banks to engage in microfinance services. MABS is now on its fourth program extension with the US-based Chemonics International, an employee-owned company, as implementing agency.

3. Foundations established through debt-to-equity swap and endowment funds

Northern NGOs backed the debt repudiation calls of Philippines NGOs by pressuring their governments to ease the Philippines' debt burden through debt-to-equity swap arrangements. However, only two debt-to-equity swaps materialised. These were the Foundation for Philippine Environment set up in 1992 through a US government debt-to-nature program with World Wild Life Foundation and the Foundation for Sustainable Society established in 1996 in partnership with Helvetas or Swiss Association for International Cooperation. Other NGO foundations endowed with ODA money were also set up as donors exited the country beginning in the late 1990s.

Another Philippine foundation established in 2001, through a complicated but controversial swap arrangement with the national government, was the Peace and Equity Foundation. Because it was perceived to have been set up in a less than transparent manner, it pitted one civil society network against another (Macasaet, 2011; Rimban & Chua, 2011; Tanchuling, 2011). Nevertheless, it raised PhP1.83 billion as an endowment fund, the largest of its kind.

4. Social enterprises

Traditional funding agencies from developed countries, e.g., Bread for the World, Cord-Aid, NOVIB, Oxfam International, Christian Aid, Catholic Relief Services - Caritas USA, the Japan Committee for Negros Campaign, and Helvetas shifted their funding priorities from advocacy and community organising to economic and enterprise development programs after the People Power revolution. Alternative trade organisations, such as SAFRUDI, PREDA, Alter Trade Negros, Advocates for Philippine Fair Trade and the SEOs in Case Study 2 were among the NGO beneficiaries of these funding agencies.

Mirroring the emergence of the concepts ‘social enterprise’ and ‘social entrepreneurship’ in Europe and North America, funding agencies, such as NOVIB, Oxfam and CIDA, introduced the concept in tandem with the ‘counterpart funding’ idea to their Philippine partner NGOs. Counterpart funding meant funding contributed by NGOs from their own pockets, which could only come from paid service provision or social enterprise development. Research commissioned in 1995 (in which I was involved) assessed the capability of NOVIB partners for social enterprise development and found most resistance came from advocacy NGOs and NGOs managing development programs in partnership with POs. Community-based POs and co-operatives were found to be more receptive. NOVIB also established a Philippine NGO to manage a social investment fund when it phased out of the country before the turn of the millennium. The Philippine NGO, however, ran into financial difficulties in the mid-2000s.

When the Philippines gained middle HDI (human development index) country status in the late 1990s, more donors planned their exit from the country. Hence, social enterprise development gained greater currency in the first decade of the 21st century. A number of NGOs may have turned to social enterprise to prepare for the drying up of traditional development assistance. But, they may also have flocked towards it because most of the ODA allotted to Philippine NGOs were for social enterprise development and microfinance projects (NEDA, 2009). The next section discusses the social enterprise discourse and understanding of the social economy.

Philippine social enterprise discourse and understanding of the social economy

Several discourses seem to construct how social enterprise is understood in the Philippines. These are the economic discourse, the fair trade discourse, the corporate social responsibility and the triple bottom line discourse.

Similar to the USA and the UK, the *economic discourse* appeared to have been spearheaded by Philippine business schools (Morato, 1994, in Dacanay, 2004). The Asian Management Institute (AIM) offered two masters degrees in development management and social entrepreneurship for NGO development workers just before the turn of the new millennium. As it was still in its nascent stage, a 'social enterprise' was defined as an organisation that 'exists for a community of worker-owners who seek to jointly improve their lot through collaborative, co-operative, and prosperity-sharing mechanisms' (Morato, 1994, in Dacanay, 2004, p. 6). A closer look at the definition shows affinity with the European workers co-operative form of social enterprise. Several of the NGO development workers who studied at the AIM went on to refine the definition and also popularised business management tools for NGOs and social enterprises (Lorna, NGO-PO Social Enterprise Network – interview; Janice, Coastal Resource Development NGO – interview).

An allied area of study emerged linked strongly with social enterprise development, namely, 'social entrepreneurship', which, according to Dacanay (2004), involves:

the promotion and building of enterprises or organisations that create wealth, with the intention of benefiting not just a person or family, but a defined constituency, sector or community, usually involving the public at large or the marginalised sectors of society (p. 6).

Dacanay (2004) defines 'social entrepreneur' as a new type of leader – 'an innovative person or institution that promotes the successful creation and operationalisation of enterprises, enterprise systems, or enterprise development projects or programs to achieve defined development objectives' (p. 9). She identifies several defining features of a social enterprise in contradistinction to an economic enterprise: Rather than wealthy stakeholders and business owners, its constituency, referred to as 'stakeholders' are marginalised groups within society who have been denied access to the mainstream economy. Whereas profit was the major goal of economic enterprises, social enterprises form part of a broader movement in society aimed at deepening democracy and promoting sustainable social development, i.e., development that pays equal attention to economic, environmental and social concerns and issues. As such the goals of social enterprises are distributive rather than accumulative (see Table 6.4).

Table 6.4: Social enterprise versus economic enterprise

Key elements	Social enterprise	Economic enterprise
Beneficiaries	Marginalised sectors called stakeholders	Wealthy shareholders and business owners
Objectives	Pursuit of double or triple bottom lines (profit, social and environmental)	Profit as a single bottom line
Enterprise philosophy	Distributive	Accumulative

Source: Dacanay, 2004, p. 8.

Hence, Dacanay (2004) writes that social enterprises promote and build wealth-creating organisations that benefit individuals, families, and communities that sit within a sector of the economy which aims to enhance the productive capacity of marginalised sectors in society. She adds that these organisations vary widely in size, form and type, ranging from all forms of co-operatives to NGOs and small to medium-sized business enterprises and even public corporations.

Whereas, the business literature is replete with stories of failed enterprises and entrepreneurs (Pozen, 2008; Shane, 2008), promoters of ‘social entrepreneurship’ seem to believe that ‘success’ is a precondition for social enterprises; hence, a range of social metrics and other toolkits have been developed to measure the social impact of social enterprises on marginalised sectors (Dacanay, 2009; Joyas, 2009; PACAP, 2009). This might not be surprising, since the range of stakeholders has expanded to include donors, as well as social impact investors (ADB, 2010; J.P. Morgan, 2010).

Given the economic discourse dominating the field and despite calls for a different way of viewing social enterprises, some social metrics monetise the non-financial performance of social enterprises (Scholten, 2009). Rather than target the real beneficiaries and stakeholders, their social impact assessments appear designed to appease the social investors investing in social enterprise development, such as NGO MFIs and other organisations engaged in microfinance provision, where reporting tended to focus on financial and economic indicators, with minimal reporting of social impacts. It was not long before the international MFIs, such as the Grameen Foundation USA, Oikocredit and international banks, created a social impact tool called the ‘Progress out of Poverty Index (PPI)’ to monitor the performance of MFIs. The PPI was piloted in the Philippines in 2009 and 2011 (Oikocredit, 2009).

The second discourse that heavily influences social enterprise in the Philippines is the *fair trade discourse*. The fair trade principles of the international fair trade movement govern the social enterprise philosophy among established Filipino fair trade groups, such as SAFRUDI. These principles are:

(i) creating opportunities for disadvantaged producers; (ii) capacity building of producers and their workers; (iii) promoting fair trade; (iv) promoting gender equity; (v) payment of a fair price and fair wages; (vi) safe and healthy working conditions; (vii) no child labour; (viii) protecting the environment; (ix) fair trade relations; and (x) ensuring accountability and transparency (Advocate of Philippine Fair Trade Incorporated, n.d.-b).

As a form of social metric, fair trade certification and labelling is used as a marker to distinguish fair trade businesses from other types of business and social enterprise. As discussed in Chapter 3, fair trade certification and labelling are usually applied on agricultural and food commodities, such as coffee, cacao and chocolates, on one side; while on the other side, the WFTO Sustainable Fair Trade Management System (SFTMS) is used to certify handicrafts producer organisations practising fair trade principles and standards (WFTO, 2009). However, producers and organisations have to prove that they adhere to fair trade principles throughout the product supply chain. While it seems straightforward, fair trade certification developed in the North has its own complex certification and labelling system, which most Southern producers have difficulty complying (for a discussion on this, see G. Fridell, 2007; Lyon, 2006; Renard, 2005; Wilkinson, 2007). As an alternative to the FLO's product certification system, the WFTO has come up with the SFTMS to be an affordable certification system for its partner FTO producers. SAFRUDI and selected CBE partners and other Philippine FTOs piloted the SFTMS in 2010.

Because fair trade had its roots in the alternative trade or solidarity movement, FTOs seem to be entirely in their own 'universe'. Although there are FTOs supplying food commodities, majority are handicraft producers and most are WFTO members (Cesar, SAFRUDI – interview). Philippine NGOs engaged in fair trade and alternative trade have not been integrated in the sub-contracting industry, in microfinance or in the social enterprise discourse. Their partnership with the national government appears limited and fair trade partnership and networking is confined to FTOs and producers that adhere to the fair trade business standards.

A third discourse influencing social enterprise in the Philippines is that of *corporate social responsibility and the triple bottom line*. While the triple bottom line (3BL) concept was conceptualised by CSR advocate and environmentalist John Elkington (2004) to govern mainstream corporations' corporate social responsibility, it seems to have been appropriated by NGOs and social enterprises without reference to its source. This is evidenced in the case presentations of NGOs and co-operatives during the first Philippine social entrepreneurship conference in September 2009. The member-NGOs and CBEs of the Philippine Social Enterprise Network (PhilSEN) that presented their SE experiences referred repeatedly to the 'triple bottom line' and the CSR mantra of 'doing

well, doing good and doing right' as their enterprise philosophy. The 3BL has also morphed into the 3Ps: people, planet and profit. This shows the strong influence of Northern corporate social responsibility (CSR) discourse among SE practitioners, especially those honed by the AIM business school who introduced the 3BL and 3P battle cry to NGOs with social enterprise development programs (Lorna, NGO-PO Social Enterprise Network – interview; Janice, Coastal Resource Development NGO – interview).

Although there is no explicit framework for the adoption of the CSR philosophy, PhilSEN is using the 3BL to define and develop a PhilSEN Social Enterprise Quality Index as a sociometric tool to gauge the viability of its NGO and PO members (*Negosyo Para Sa Iba, Negosyong Kakaiba, Negosyo Ka Nga Ba?*, Ateneo and PhilSEN Social Entrepreneurship Conference, 2009). The conference also showed that Philippine social entrepreneurship is very much 'a work in progress' and participants agreed not to 'draw fences' (Lara, 2009) around 'social enterprise' and 'social entrepreneurship', as this might lead to conflict. Instead, they recommended identifying different 'species' of social entrepreneurs that could form a more inclusive family. Hence, the social entrepreneur species included civic entrepreneurs, bottom-of-the-pyramid, community-based social business entrepreneurs, technological social entrepreneurs and corporate social entrepreneurs (Dela Cruz, 2009). This is similar to US advocates' eagerness to affix the label 'entrepreneur' to perceived social change agents (Pozen, 2008).

Other SEOs have their own formal and informal ethical codes of conduct. As an example, the Philippine Council for NGO Certification (PCNC) was set up in 1998 by the CODE-NGO to govern NGO-PO practices. Songco (2007) claims that it was the first of its kind in civil society and, as such, became the model for NGO certification in other parts of the world. The PCNC certification system also privileges certified organisations with donee status that allows donors to enjoy tax breaks. However, due to political and ideological differences (Constantino-David, 1997) and the cost of certification (Songco, 2007), very few get certified. In 2011, there were only 375 organisations certified (PCNC, 2011). An analysis of the roster of PCNC-certified organisations shows that it was dominated by corporate foundations, religious organisations, university research institutes, NGO MFIs and charitable organisations.

Taxonomy of the social economy viewed from the plural economy approach

Given the complexity of Philippine society, the majority of Philippine SEOs do not fit neatly into the categories of the social economy taxonomy devised by Chaves and Monzón (2007). Rather than a strict division into the market- and non-market-oriented sub-categories, Philippine SEOs straddle a continuum between the two. For example, a health advocacy organisation might include

livelihood generation, some form of micro-credit, co-operative organising, backyard gardening, or livelihood training. As well, co-operatives and NGO MFIs are not solely economic organisations but are also involved in non-market activities, such as environmental advocacy, community organising, health and sanitation, dental and medical service provision, or engaged in spiritual/values formation. They can also partner with international development agencies, such as AusAid or USAID. Churches routinely combine their religious mission with community development projects. They are actively involved not only in their traditional role as charitable organisations but also as social development actors in their own right. Hence, in terms of the activities they undertake, it is very difficult to categorise these SEOS neatly into market and non-market subsectors. Nevertheless, as ideal types, the social economy taxonomy devised by Chaves and Monzón (2007) allows the classification of organisations as hybridising the three poles of the economy and the determination of their location and boundaries.

Based on the secondary data analysis, the taxonomy of social economy viewed from the plural or tripolar economy can be categorised in the following sectors:

1. *State sector*: Public chartered corporations and public sector agencies.
2. *Market sector*: For-profit private businesses.
3. *Community/household*: Households and unregistered community organisations.
4. *Social economy*: market-oriented SEOs; non-market-oriented SEOS, and other hybrid organisations

Table 6.5 illustrates examples of organisations comprising the various sectors of the plural economy, their descriptions, and function in relation to the beneficiary social groups. Because of the difficulty of fitting the organisations into a discrete sector, the social economy taxonomy conceptualised by Chaves and Monzón (2007) (see Table 3.2 on p. 72) was modified to include organisations from the public sector, market sector, and community/household sector that were found to hybridise, i.e., combine resources and other forms of social support across sectors based on Evers' (2008) concept of hybridisation.

Table 6.5: Taxonomy of the social economy based on the plural economy framework

Sector/description	Function	Examples of Philippine SEOs
1. State Public chartered corporations and public sector agencies	<ul style="list-style-type: none"> • Provide social services or financial resources based on the law that created the agency or public corporation. For example, PCSO was mandated to raise revenue for charity through horseracing and lottery; PCSO also administers the distribution of funds to charities and local government agencies. 	<ul style="list-style-type: none"> • PCSO • Department of Social Welfare and Development • People's Credit and Finance Corporation
2. Market For-profit private businesses	<ul style="list-style-type: none"> • Provide financial services to low-income borrowers, agrarian reform farmers, or micro-entrepreneurs at market prices. 	<ul style="list-style-type: none"> • Rural banks and thrift banks engaged in MABS microfinance program
3. Community/household Households and unregistered community organisations	<ul style="list-style-type: none"> • Administer family economy. • Support household/family members through love and reciprocity. 	<ul style="list-style-type: none"> • Informal self-help groups • Informal household production systems • OFW households
4. Social economy		
(i) Market-oriented SEOs For-profit SEOs in the formal, private, market sector	<ul style="list-style-type: none"> • Attend to the needs of basic sector members and beneficiaries who may also be owners of the company. • Generate income through sale of goods and services in the market sector. • Depending on legal form, may distribute surplus or re-invest in the organisation. Those that do, distribute surplus to members based on self-help principles. 	<ul style="list-style-type: none"> • NGO MFIs • Fair trade organisations • Intermediary marketing organisations • NGO funding agencies set up as foundations • Religious-owned schools, colleges and universities • Co-operatives
(ii) Non-market-oriented SEOs Nonprofit organisations identified by the <i>UN ICNPO Handbook</i> but excluding organisations that receive substantial payment from the public and private sectors	<ul style="list-style-type: none"> • Produce non-market goods for households. • Provide non-market services for households. • Might sell goods and services but ploughs surpluses or profits back into the organisation. 	<ul style="list-style-type: none"> • Health NGOs • Indigenous People's organisations • Corporate foundations
(iii) Hybrids	<ul style="list-style-type: none"> • Function depending on mandate of the hybrid organisation 	<ul style="list-style-type: none"> • State/civil society hybrids • State/market-oriented subsector hybrids • Civil society/ community/ household hybrids • Community/household/market hybrids

The proceeding section discusses in more detail the types of SEOs comprising the Philippine social economy.

(i) Market-oriented subsector of the social economy

The market-oriented subsector of the social economy straddles the formal-private-nonprofit/for-profit market continuum. Based on the definition of the market-oriented social economy subsector,

these include: co-operatives; NGO MFIs; religious-owned private schools, colleges and universities; loans and savings associations; fair trade organisations; intermediary marketing organisations; NGO funding agencies; and co-operative rural banks.

Very few (8%) of the co-operatives registered in 2011 could be classified as market-producing co-operatives (Co-operative Development Authority [CDA], 2011). The majority (78%) were credit co-operatives servicing the financial needs of their members. Although the legal form they might take was a multi-purpose co-operative (70%), they registered as such for pragmatic reasons because it allowed them to engage in different business activities, e.g., setting up a consumer store.

While co-operative banks engaged in microfinancing are profit-oriented, they are owned by primary co-operatives and thus governed by co-operative principles, such as one-member, one-vote and limited profit distribution. Hence, they straddle the non-profit and for-profit boundaries. Similar to co-operatives, savings and loans associations operate to provide financial services to members and are also governed by the one-member, one-vote principle and limited profit distribution. Fair trade organisations, though relatively small in number, are closer to the informal sector and producers' associations in the boundary of the market and community/household poles.

The Roman Catholic Church owns some of the most profitable and exclusive colleges and universities in the country, but 51% of its primary and secondary schools are mission schools (Catholic Educational Association of the Philippines, n.d.). The profits generated by these exclusive schools may be presumed to subsidise the operations of the latter. While they straddle the non-profit and for-profit market poles, religious-owned schools were nonetheless classified in the market subsector because of their scale.

Unlike in developed countries where foundations are categorised as non-market-oriented organisations, in the Philippines NGO funding agencies, registered as foundations, combine non-market activities (transfers) and market transactions (financing and equity investment) to SEOs. The profits earned from the latter are used to subsidise grants and transfers to SEOs, whether market or non-market-oriented. Hence, NGO funding agencies were deemed to be more market-oriented than non-market. Likewise, most NGO MFIs were set up as non-stock, non-profit foundations; thus, their classification as market-oriented SEOs.

(ii) Non-market-oriented subsector of the social economy

Non-market-oriented SEOs occupy the formal-private-nonprofit continuum or the space bounded by the market, communities and the state. The organisations occupying this space include religious congregations and charities, NGOs, people's organisations, corporate foundations, professional and

business groups, trade unions and other nonprofits identified by the UN ICNPO. A number of the organisations occupying this space were found to blend market and non-market activities for their members and beneficiaries (see Table 6.6). For example, among the 3,843 SEOs, 1,004 or more than a quarter have microfinance projects spread across the country. However, only 24 of these can be considered dedicated NGO MFIs, those that report to the Microfinance Information Exchange (MixMarket). Thus, despite hybridising market and non-market activities, strictly speaking these organisations conform to Chaves and Monzón's (2007) category of the non-market subsector. Though these SEOs are trying to become more marketised they nonetheless have to render essential services which are not easy to commodify and cannot generate a profit in terms of financial capital but do enhance social capital and other 'capitals' identified by the Asian Development Bank.

Table 6.6: Type of activities SEOs combine

Activity	Frequency	%
Microfinance	1,004	14%
Sustainable development	836	11%
Education and educational assistance	810	11%
Health (dental/medical services, hospitalisation and sanitation)	700	10%
Sustainable agricultural development	398	5%
Community development	332	5%
Spiritual and values formation	293	4%
Feeding and nutrition	293	4%
Social development	273	4%
Social enterprise development	263	4%
Residential care, temporary shelter for children, youth, women or elderly	209	3%
Disaster management	180	2%
Advocacy and campaigns	152	2%
Capability-building and skills training	135	2%
Environmental protection and advocacy	131	2%
Social and economic development of persons with disability	129	2%
Psychological services and counselling	120	2%
Protection of senior citizens	115	2%
Gender and development	112	2%
Promotion/protection of workers' rights	105	1%
Others	715	10%
Total	7,305	100%
N=3,843		

(iii) Hybrid SEOs

The profiling found four types of hybrid organisations. While they do not always hybridise financial resources, other forms of social support identified by Evers (2008) are blended. These include skilled human resource, network support, and voluntary labour. The first type hybridises the state, non-market social economy, and community/household spheres. These organisations include the

local development councils mandated by the Local Government Code and the National Anti-Poverty Commission, which have representatives from basic sector organisations, co-operatives and NGOs. The head of the NAPC is usually appointed from the civil society sector. Others include amateur sports associations supported by the state and contracted to maintain public sports facilities, e.g., the Philippine Olympic Committee.

The second type of hybrid includes state-market-oriented organisations expressed in the CDA and the MSMED Council. The third type hybridises the non-market subsector and community/household spheres. It includes party list groups of marginalised sectors affiliated with civil society organisations and communities organised by religious congregations and charities. The latter includes basic ecclesial communities organised by Catholic Social Action Centres, Christian communities organised by Protestant churches and Muslim communities organised by Islamic foundations. The fourth type of hybrid blends the market/non-market social economy, community/household and market sectors. It encompasses household production systems that oscillate between formal and informal economic production. It includes self-employed micro-entrepreneurs, producers associations and CBE partners of SAFRUDI. Table 6.7 provides examples of the four types of hybrids.

Table 6.7: Hybrid organisations

Form of hybridity	Description	Examples
State/civil society	<ul style="list-style-type: none"> • State agencies with representatives from basic sector organisations, co-operatives and NGOs. • State-supported amateur sports associations contracted to maintain public sports facilities. 	<ul style="list-style-type: none"> • National Anti-Poverty Commission • Co-operative Development Agency • Amateur sports associations, e.g., Philippine Olympic Committee
State/market-oriented subsector	<ul style="list-style-type: none"> • State agencies with representatives from organisations located in the market sector and market-oriented social economy subsector 	<ul style="list-style-type: none"> • Co-operative Development Agency • Micro, Small and Medium Enterprise Development Council
Civil society/ community/ household	<ul style="list-style-type: none"> • Party list groups of basic sectors eligible to run in the House of Representatives. • Faith-based community organisations engaged in development projects. 	<ul style="list-style-type: none"> • Social action centres • Basic Christian or ecclesial communities
Community/household/market	<ul style="list-style-type: none"> • Household production systems that oscillate between formal and informal micro-enterprises. 	<ul style="list-style-type: none"> • Micro-entrepreneurs • Producers associations • CBE partners of SAFRUDI

Social and economic contribution of the social economy

While there is no official accounting yet of the contribution of the social economy to Philippine society, it is acknowledged that it contributes substantially to social, economic and political stability (CODE-NGO, 2011; CDA, 2011; CDA, 2004; Micu, 2010; NEDA, 2004; Pastrana, 2009). The 1997 JHCNPS study, for example, estimated that there were between 249,000 and 497,000 nonprofit organisations in 1997 and that the sector accounted for 1.5% the country's GDP (Cariño, 2002b). Total paid labour and volunteers employed in non-profit institutions, including health and education centres, were estimated to account for 1.8% of the working-age population. The discrete number of organisations generated in this study totalled 3,843 out of the 7,305 records in the collated database. This number is just a fraction of other large estimates of the size of Philippine civil society that are variously placed at 497,000 in 1997 (Cariño, 2002) and 107,163 in 2009 (Securities and Exchange Commission, in Tuaño, 2011).

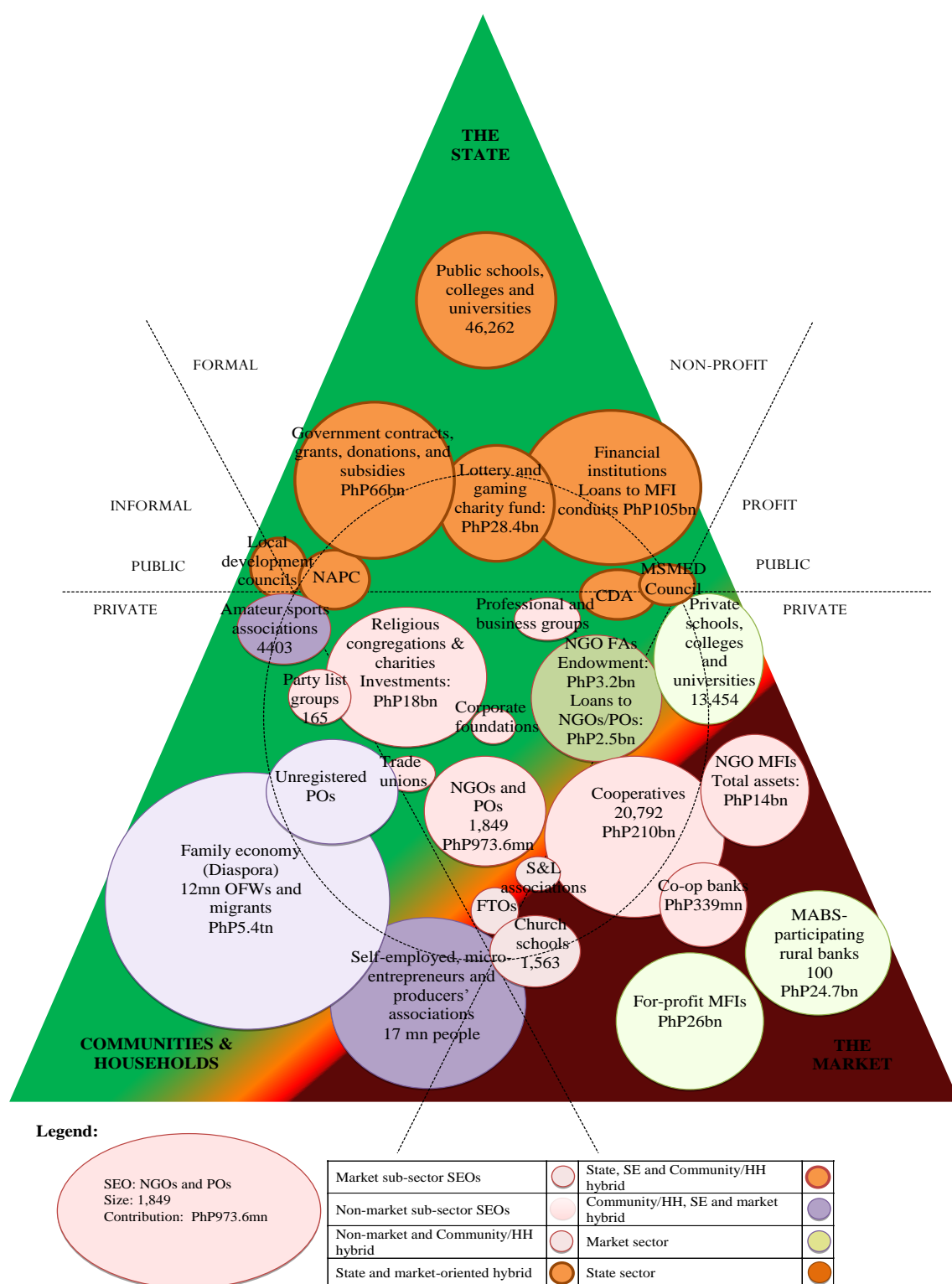
However, as demonstrated by data from available financial and economic indicators covering the period 2001 to 2011, an approximation of the size of the social economy shows that it is indeed substantial. Over 11 years, an estimated figure of PhP5.9 trillion or more than USD138 billion in remittances, loans, grants and subsidies may have entered the economy generating profits and assets for the social economy. This figure does not include other ODA to the Philippine government and NGOs. If these were included, the inflows to the social economy would be greater. For example, the Australian Agency for International Development, in its six-year program ending in September 2010, committed AUD20 million or PhP740 million to 448 community-based agricultural and social enterprise projects (PACAP, 2009). It writes that these projects helped generate 1.6 million jobs. Table 6.8 synthesises the data used in the discussion to show the size and economic contribution of the sector, while Figure 6.1 (p. 212) serves as its graphical representation using the plural economy model.

Figure 6.1 shows the Philippine social economy at the centre of the three poles, hybridising the state, communities and households and market sectors. As stated earlier, determining the location of SEOs in the EMES model proved challenging since a number of them was found to combine both market and non-market activities. Hence, NGO foundations that provide grants and loans and invest in social enterprises straddle the market sector and non-market sector. Private schools and educational centres founded as nonprofit foundations are for-profit in operations, yet, at the same time access public subsidies. Thus, they were located near the boundaries of the market, state and social economy.

Table 6.8: Approximate economic contribution of the Philippine social economy

Economic Pole	Period Covered	Number	Economic Contribution (in PhP)
<i>State sector</i>			<i>199,226,672,513</i>
Public schools, colleges and universities	2012	46,262	n/a
Grants, donations and subsidies of state agencies and public corporations	2006-2010	50	66,132,411,767
PCSO lottery and gaming charity fund	2006-2010	1	28,356,217,912
State financial institutions' net loans receivables	As of 2010	6	104,738,042,834
<i>Market subsector social economy</i>			<i>230,151,978,593</i>
Co-operatives, total assets		20,792	209,840,264,807
Co-operative MFIs reporting to MixMarket, total assets	As of 2010	2	338,783,040
NGO MFIs reporting to MixMarket, total assets	As of 2010	24	14,263,884,284
Savings and loans associations	As of 2012	40	n/a
Religious-owned schools, colleges and universities, all denominations	2,011	1,563	n/a
Loans extended to NGOs and co-operatives by 3 funding agencies	2001-2011	3	2,541,460,282
NGO Funding Agencies	As of endowment year	3	3,167,586,180
<i>Non-market subsector social economy</i>			<i>19,386,890,809</i>
Grants received from 3 funding agencies (FAs) by some 1,849 NGOs and POs	2001-2010	1,849	973,566,656
Religious congregations, social action centres and charities, all denominations		915	n/a
Roman Catholic Church investments	As of 2011	22	18,413,324,153
Party list groups	As of 2012	165	n/a
Professional and business associations	As of 2012	279	n/a
Trade union confederations and affiliates	As of 2012	82	n/a
Corporate foundations	As of 2012	73	n/a
Amateur sports clubs	As of 2012	4,403	n/a
<i>Communities and households sector</i>			<i>5,384,027,500,000</i>
Overseas Filipino workers and migrants, foreign remittances	2003 to 2011	12mn	USD126,683mn (at PhP42.5 is equivalent to 5,384,027,500,000)
Self-employed, paid own-account workers, employers and unpaid family members	As of 2011	17mn	
<i>Market sector</i>			<i>48,131,027,614</i>
Private schools, colleges and universities	As of 2012	13,454	n/a
For-profit MFIs reporting to MixMarket, total assets	As of 2010	23	26,413,527,614
Loans provided by MABS-participating rural banks	As of 2009	100	USD511mn (PhP 21,717,500,000.00)
Approximate economic contribution (assets and loans)			PhP5,880,924,069,529 or USD 138,374,683,989

Figure 6.1: The Philippine social economy through the EMES framework



Among public sector organisations, four agencies with NGO and PO representation, such as the local development councils, NAPC, CDA, and the MSMED Council straddle the social economy sector. However, given their mandates, their respective locations differ. The local

development councils and NAPC are near the boundary of the communities and household sector, while the CDA and MSMED Council are close to the boundary of the private sector. Fair trade organisations, such as SAFRUDI, are mapped as straddling the market sector but near the boundary of the communities and household sector where its partner CBEs, comprising self-employed family enterprises are located. While the social economy appears to be the heart, the economic contribution of overseas Filipinos workers and migrants via remittances may be likened to the blood that circulates in the body, whose annual infusion keeps the Philippine economy alive.

Hybridisation and its challenges

As defined earlier, hybridisation means the positive process of blending the values and characteristics of the three economic poles: the public/state, private/market and community/household economy. Evers (2008) writes that hybridisation takes place through the following four dimensions: resources, goals, governance, and emergence of a hybrid organisation embodying the first three dimensions. He views organisational isomorphism as negative hybridisation i.e., the positive 'traits' carried by SEOs are weakened by adaptation to the market or regulatory environments. Examples include mission drift, undemocratic decision-making, co-optation, dilution of SEO or FT values, and ethical- or fair-washing.

Evers (2008) argues that organisational isomorphism is not bad per se because it will attract back in the more critical and politically-oriented civil society organisations which were sidelined by the turn to social economy to the public sphere. Hence, their participation in public discourse would revive civil society norms and values that would make it harder for the state or the market to co-opt SEOs to their version of a marketised or financialised social economy. Evers (2004, 2008) also claims that SEOs do not intend to take over the functions of the state or the market, but merely serve to complement them. Based on these propositions, the Philippine SEO experience of the hybridisation process will now be analysed.

Hybridisation process

The hybridisation of resources, goals and governance were achieved by Philippine SEOs through the following factors: state-aided hybridisation of resources; innovation and creation of niche markets; Church and middle class solidarity with the poor; collaboration and partnerships; participatory governance; and gifts and remittances to households by the Filipino Diaspora.

State-aided hybridisation of resources

As already discussed, the state, through its legal and regulatory power, was found to be a major factor in the hybridisation of Philippine SEOs. Beginning in the American period, laws were routinely enacted to support favoured charities and associations. The 1987 constitution further enshrined the participation of people's organisations in governance and state-building. Thus, many development-oriented NGOs and civil society groups were able to access state and ODA funds to pursue their alternative visions of society, economy and politics. Compared to the USA, Australia, or the EU, the Philippine legal and regulatory environment appears very conducive indeed to the thriving of the social economy.

Innovation and creation of niche markets

The review of literature and secondary data analysis showed that long before the microfinance bandwagon caught on, development NGOs demonstrated that lending to the poor at low interest rates could be a viable venture. Among the pioneer NGO MFIs, some have established their own rural banks or co-operative banks to better compete in the market (MixMarket data). NGO MFIs and co-operative banks have also innovated and modernised their operations by partnering with telecommunications companies, allowing them to offer 'e-cash' through mobile phone and ATM (automated teller machine) services to members in remote communities (MCPI, 2010). Also, in their quiet way, FTOs were able to assist marginalised producers through handicrafts export before the social enterprise concept and its theorising emerged in the Philippines.

Church and middle class solidarity with the poor

In contrast to commercial, private educational institutions, non-profit, religious-owned universities, colleges, and schools with profitable operations were found to subsidise their mission schools and other welfare services for the poor. In addition, small, parish-based co-operatives organised by religious missionaries have outgrown their parish confines and some have gone on to become among the most profitable and biggest co-operatives in the country. The growth and success of co-operatives could also be attributed to the recruitment of professionals and members of the middle class who, by virtue of their education and social standing, were seen better managers than members from the poorer classes.

Collaboration and partnerships

Market-oriented SEOs and large NGOs with both market-oriented and non-market oriented activities were found to collaborate by establishing national and regional networks, while co-operatives federate at the secondary and tertiary levels. Due perhaps to its colonial and political

history, Philippine SEOs appeared more inclined to partner across sectors than the countries reviewed in this study. For example, the National Confederation of Co-operatives (NATCCO) is a member of the Microfinance Council of the Philippines, Incorporated, an umbrella association of 47 NGO-MFIs, co-operatives and microfinance banks (MCPI, 2010). It is also unsurprising to see officials of national federations of co-operatives sitting in the board of trustees of NGO networks and vice versa (PEF as source). Thus, through networking and linkages, they are able to scale up their economic activities that reach larger numbers of beneficiaries and communities (CODE-NGO, 2011; MCPI, 2010). Also, professionalisation of staff and use of ICT (information and communication technology) appeared high on the agenda of these networks to ensure effective and efficient delivery of services (CODE-NGO, 2011; MCPI, 2010; NATCCO, 2009).

Among FTOs, handicrafts producers and FT marketing NGOs collaborate through the Advocate of Philippine Fair Trade Incorporated (APFTI) and the WFTO-Philippines secretariat. Among its many functions, APFTI was found to co-ordinate the participation of FTOs in national and regional trade fairs organised by the government or by NGO networks, such as CODE-NGO (APFTI website). APFTI used to house the Philippine Fair Trade Forum which was spun off as WFTO-Philippines. The latter organisation is responsible for co-ordinating international and national advocacies for fair trade, auditing adherence by Philippine FTOs to fair trade principles, and fair trade labelling and certification of micro and small enterprises (WFTO-Philippines, 2010)

Participatory governance

Analysis of the VMG of SEOs (N=3843) showed that almost all claim participatory governance processes involving their stakeholders to ensure program fit, accountability and transparency. As theorised by Dacanay (2004), stakeholder participation is a key principle of a social enterprise. This can be done through community representation in the management board of public/private sector bodies and SEOs. In addition, 'community ownership' of programs can be in terms of volunteer time, labour, and other resources contributed by community members; thus, allowing them 'stakes' in the program.

Gifts and remittances from the Filipino Diaspora

As written earlier, gifts and remittances of overseas Filipino workers and migrants to their households and families buoy up the Philippine economy. While the social economy seems to be the heart, gifts and remittances appear to be the blood that keeps the heart pumping and the Philippine economy alive.

Organisational isomorphism

While SEOs were able to hybridise the three poles, the opposite pull towards organisational isomorphism was also evident. The following findings seem to give credence to organisational isomorphism among market-oriented SEOs: state co-optation of SEOs; corruption and mismanagement; competition for funds and corrosion of civil society values; semiclientelism and political patronage; paying lip service to social and economic reforms; concentration in urban areas leaves the poorest out; colonisation of the microfinance industry; and mission drift.

State co-optation of SEOs

In the UK literature described in Chapter 2, the Panel on the Independence of the Voluntary Sector (PIVS) highlighted some of the negative consequences of state contracting and how the state was co-opting the voluntary sector through various regulations and tactics. The PIVS had documented erosion of its 'barometer of independence' due to competition for survival and the urgent need to serve the most disenfranchised groups in UK society. The review of Philippine literature and secondary data analysis revealed that the state was also co-opting and using SEOs for its own ends. As demonstrated in Chapter 4 various Philippines governments had co-opted some SEOs by privileging state-friendly associations, trade unions, and co-operatives and repressed others by employing coercive state power against perceived radical associations and enemies. The review revealed, too, the carrot-and-stick approach utilised by corrupt government leaders and politicians to silence or win over civil society leaders and personalities. Laws were circumvented to favour certain private sector organisations masquerading as NGOs or civil society organisations. For example, despite stringent regulations, such as the COA circular, unheard of NGOs and POs were able to access ODA and public sector funds contributing to an increase in public sector debt.

Corruption and mismanagement

Due to bureaucratic inefficiency and mismanagement, state funds and ODA money meant to develop the agricultural and agrarian reform subsector were wasted. The performance and financial audits of public sector agencies from 2006 to 2010 detailed cases of costly development projects contracted out by the Department of Agriculture and its attached bureaus to community organisations, NGOs and the private sector. These included unfinished and sub-standard farm-to-market roads, non-performing cold storage facilities and warehouses, empty community markets and failed business ventures. The amounts advanced to these organisations have remained unreported over the years and collecting them is well-nigh impossible.

Furthermore, the Commission on Audit wrote of private foundations, NGOs and POs that were awarded government contracts worth hundreds of millions of pesos without satisfying stringent rules and regulations. Some of these NGOs won contracts through political backing and some of the failed co-operative banks that received financial assistance were hailed by politicians as financial models before they collapsed. In the most recent case of corruption, a private corporation has been exposed for defrauding the government by accessing the lawmakers' 'pork barrel funds', also euphemistically called Priority Development Assistance Fund (PDAF) for over 10 years (Burgonio & Carvajal, 2013; Carvajal, 2013). By founding 20 bogus NGOs and foundations supposedly benefiting poor farmers and agrarian reform beneficiaries, the said corporation was believed to have fleeced the public coffers to the tune of PhP10 billion (AUD222.2mn).

While other socio-cultural factors might have caused the failure of government assistance to the agricultural and agrarian reform subsector, the failure of state-led programs somehow resembles the failure of costly projects discussed in Chapter 4. Recall that in the early US colonial period, hundreds of millions of dollars spent on agriculture and agricultural co-operative development programs were lost to corruption and mismanagement. During the Martial Law period, the government also poured hundreds of millions of aid money to agricultural co-operatives and even employed foreign technical advisers to help the sector but had very little success to show for it.

Competition for funds and corrosion of civil society values

As already discussed above, the competition for state and ODA funds had driven a wedge among civil society actors. Mercenary NGOs set up by unscrupulous individuals in cahoots with corrupt government officials (Burgonio & Carvajal, 2013; David, 2013) were adding to public perception of corruption within the civil society movement (Doyo, 2012). Significantly, this seemed to be corroborated by a study that measured Philippine civil society through the Civil Society Index (CSI) (CODE-NGO & CIVICUS: World Alliance for Citizen Participation [CIVICUS], 2011). The study revealed that only 31% of civil society organisations surveyed believed that corruption in NGOs was 'very rare'; more than a third believed that instances of corruption was 'frequent' to 'very frequent'; while another third reported it occurred 'occasionally' (CODE-NGO & CIVICUS, 2011, p. 46). The perception of corruption is under the dimension 'practice of values', which scored the lowest among four dimensions. The other indicators where CSOs scored low in the practice of civil society values were adherence to 'labour regulations' (29.4%), 'environmental standards' (30.8%), and 'code of conduct and transparency' (45.7%) (p. 41). However, it scored high on 'democratic decision-making governance (69.7%), and 'perception of values in civil society as a whole' (69.1%) (ibid). In other dimensions of the CSI, the Philippine civil society scored high

on the dimensions of 'perception of impact' (62.8%) (p.47); 'level of organisation' (57.9%) (p.37); and 'civic engagement' (54.7%) (p. 25).

Semiclientelism and political patronage

Although participatory governance processes might be adhered to in principle, actual implementation vary (Songco, 2007); for example, since an informed constituency is requisite for real, democratic decision-making to transpire, financial, temporal and spatial issues can short-circuit the process (CODE-NGO & CIVICUS, 2011). Also, grassroots representation in government bodies, such as the NAPC, seemed to have limited impact. Instead, civil social actors who joined government appeared to be thwarted in their attempts to pursue social and economic reforms within the system (Reid, 2008). Somehow this mirrors the assessment of the UK civil society which was found weak against the state despite various civil society compacts with succeeding UK governments.

In addition to being powerless relative to the state, Reid (2008) argued that Philippine NGOs were not immune to the clientelism that characterised the distribution of state power. Public sector co-optation of grassroots organisations in exchange for financial support might be behind the huge amounts of ODA money still unaccounted for by NGOs and POs that COA uncovered. Hence, contracting out development projects seemed counterproductive when combined with political patronage and an inefficient state bureaucracy, on the one hand, and financial opportunism and weak SEOs that cannot police their own ranks, on the other (Collas-Monsod, 2013; David, 2013; Doyo, 2012). It is no wonder, then, that farmers have become wary of development projects supposed to benefit them whether implemented by the state or by SEOs. As a respondent in Case Study 2 related,

We have the organic agriculture project with a Catholic development agency as our partner. Because we saw that the value in rice production is on the rice milling, we said that perhaps if the farmers could have ownership of the *palay* after [harvest], they would take part in that [project], right? Oh, easier said than done ... farmers themselves are difficult to [convince] ... It doesn't follow that when the farmer sees that's where he'd earn a bigger income, he'd go there. No, it doesn't follow (Rafael, Philippine Fair Traders' Association – interview).

Paying lip service to social and economic reforms

While the state and bilateral and multilateral agencies herald investments in social reforms and poverty alleviation programs, it seems that only a small percentage of ODA goes to social reform

and poverty alleviation programs (CODE-NGO, 2000; Tadem, 2007). For example, during the period 1992-1999, 60% of the total USD13.995 billion ODA fund commitments went to infrastructure development, while only 8.4% went to poverty alleviation (agriculture, agrarian reform and co-operatives) and 12% to social reform programs (human development and social services) (CODE-NGO, 2000). Fast forward to the 21st century and data show that, based on average ODA commitments of USD10.815 billion in the past 10 years, infrastructure (63%) remains the biggest recipient (NEDA, 2011a). Although poverty alleviation programs (agriculture, agrarian reform and natural resource management) increased to 18%, social reform and community development (education, women's health, farm-to-market roads, multi-purpose buildings, potable water supply, and other social reform and community development programs) declined to 9% (NEDA, 2011). This means that civil society engagement in ODA contracting and service delivery has not been effective in influencing the use of ODA money. After all, part of the ODA spent on infrastructure goes back to the ODA donor in the form of contracts to donor country contractors and corporations (Africa, 2009b; Miles Jones, 2009; Tadem, 2007).

In addition, most of the ODA-funded anti-poverty and social reform programs were deemed to be top-down and tied to donor conditionality. Studies show that, since NGO-PO participation was itself an ODA condition, public sector officials and employees on the ground felt by-passed and, in certain cases, their relationships with NGO-PO partners were strained (Official Development Assistance Watch, 2005). Furthermore, NGOs and POs without an independent source of income were expected to bring in 20% of the project cost. Additionally, while NGO and PO participation was restricted to mere implementation, they were, nevertheless, expected to shoulder the risk and blame inherent in top-down projects. For traditional charitable organisations providing services for which the state was responsible in the first place, obtaining state financing had been a constant irritant and dilemma since gambling rather than tax-based revenue was the source of funding.

Concentration in urban areas leaves the poorest out

Secondary data analysis revealed that SEOs concentrated in more economically advanced regions, which appeared to militate against the poorest and hard-to-reach underdeveloped regions where 73% of the poor live. Among the urban developed regions, more SEOs were found to be based in the NCR, which had the lowest poverty incidence (see Table 6.9). The ratio of NCR-based SEOs in 2006 was 2.4 SEOs to every 1000 individuals living below the poverty line based on the 2003 poverty measurement. Using the latest poverty measurement, the ratio in 2009 was even higher at 6.3 organisations in every 1000 poor. Their scope of operations was higher, too, in Luzon than in

Table 6.9: Distribution of SEOs by region

	Poverty incidence		Registered primary co-operatives (market-oriented SEOs)	Scope of operations of non-market-oriented SEOs 1/	Scope of operations of non-market and market-oriented SEOs with microfinance function 2/	Scope of operations of all SEOs (market-oriented and non-market-oriented)	Ratio of SEOs in every 1000 poor population	Ratio of SEOs in every 1000 poor population
	2006 measurement	2009 measurement	As of 31st Dec 2011	From 2001-2012	From 2001-2012	From 2001-2012	As of 2006	As of 2009
PHILIPPINES	32.9	26.5	20,501	4,565	1,004	26,070	0.9	1.1
National Capital Region	10.4	4.0	2,087	629	109	2,825	2.4	6.3
Cordillera Autonomous Region	34.5	22.9	701	155	25	881	1.7	2.5
Ilocos Region	32.7	23.3	1,259	112	50	1,421	1.0	1.3
Cagayan Valley	25.5	18.8	751	91	36	878	1.2	1.6
Central Luzon	20.7	15.3	1,983	265	80	2,328	1.2	1.6
CALABARZON 3/	20.9	13.9	2,423	354	93	2,870	1.3	1.8
MIMAROPA 3/	52.7	35.0		143	33	176	0.1	0.2
Bicol Region	51.1	45.1	784	260	65	1,109	0.4	0.5
Western Visayas	38.6	31.2	1,314	234	66	1,614	0.6	0.8
Central Visayas	35.4	35.5	1,508	293	64	1,865	0.8	0.8
Eastern Visayas	48.5	41.4	661	179	66	906	0.5	0.5
Zamboanga Peninsula	45.3	43.1	732	134	36	902	0.6	0.7
Northern Mindanao	43.1	39.6	1,421	197	64	1,682	1.0	1.1
Davao Region	36.6	31.3	1,639	198	56	1,893	1.3	1.5
SOCCSKSARGEN	40.8	35.7	997	198	63	1,258	0.8	0.9
CARAGA	52.6	47.8	1,033	107	38	1,178	1.0	1.0
Autonomous Region of Muslim Mindanao	61.8	45.9	1,208	178	12	1,398	0.8	1.0
Notes:								
1/ Includes 838 SEOs whose regional scope of operations were not indicated					Luzon Regions			
2/ Includes 48 SEOs whose regional scope of operations were not indicated					Visayas Regions			
3/ Includes co-operatives from MIMAROPA					Mindanao regions			
N=3843 SEOs								

the poorer regions of the Visayas and Mindanao. Among organisations with a microfinance function, the bias toward urban areas was also apparent. While microfinance was found spread out across the country, the NCR and its neighbouring developed areas had the largest proportion of microfinance institutions. This was true as well for the urbanising regions in Mindanao – Northern Mindanao, CARAGA and Davao regions, while the poorest regions, such as the Bicol region, Eastern Visayas, Zamboanga Peninsula, SOCCSKSARGEN and the Autonomous Region of Muslim Mindanao had very few MFIs. This finding seemed to be corroborated by a recent report assessing the social impact of 10 Philippine NGO MFIs (Chua, Sebastian, & Silva, 2012).

As regards economic activities, majority (98%) of microfinance borrowers and co-operatives (75.5%) were found to be micro-enterprises, with assets below what government officially defined as a micro-enterprise, that is, a business with assets of less than PhP3 million (AUD70,588). Micu (2010) wrote that only 2% of microfinance borrowers became small enterprise owners. Among co-operatives, a large number had been found to comprise consumers' and credit co-operatives, while producers, marketing and service co-operatives accounted for a mere 14% of the total number registered in 2011 (CDA, 2011). As a result of investing in enterprises with low value-added, employment generation was also low. Table 6.10 shows that micro-enterprises in the formal economy comprised the largest number of establishments registered in 2004, 2009 and 2011. Yet, the ratio of jobs generated by microenterprises compared with other types of establishments was considerably lower and even declined from 2.9 jobs in 2004 to 2.4 in 2009 and 2011. Also, the ratio of jobs generated by small enterprises at 22.1 in 2004 to 23.4 in 2009 and 2011 was lower than medium-sized and large establishments.

Table 6.10: Ratio of jobs generated to total number of establishment, by type

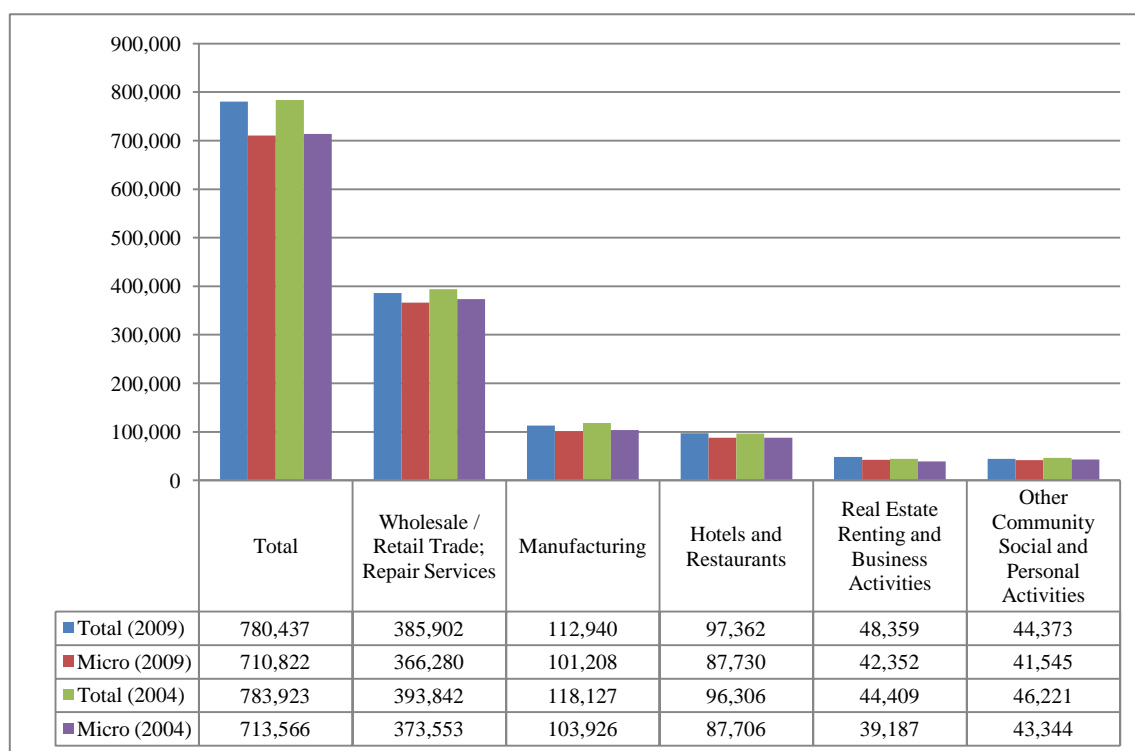
Type of Establishment	Number of establishment			Number of jobs generated over number of establishment		
	2004	2009	2011	2004	2009	2011
Micro	713,566	710,822	743,250	2.9	2.4	2.4
Small	64,501	63,529	70,222	22.1	22.8	23.4
Medium	2,980	3,006	3,287	135.3	138.2	137.4
Large	2,876	3,080	3,496	603.8	680.0	707.5
Philippines	783,923	780,437	820,255	7.2	7.3	7.7

Source of data: Department of Trade and Industry website

The Department of Trade and Industry data showed that the majority of registered micro-enterprises and small businesses were in the 'wholesale and retail trade and repair services' industrial category followed by 'manufacturing' and 'hotels and restaurants'. The propensity of

micro-entrepreneurs to invest in these industrial categories lay in their low capital requirements since they could be operated with minimal skills from the household. The wholesale and retail trade and repair services industry included all types of buying and selling activities ranging from street vending to shoe repair or operating a mom-and-pop (*sari-sari*) store to bulk selling and running a supermarket chain (National Statistical Coordination Board, n.d.), while, being in manufacturing might mean small-scale food processing, weaving, dress-making and tailoring, handicraft-making, or sub-contracting. Being in the hotels and restaurants category might mean running a resort, motel, hostel and other short-term accommodation business, while the restaurant sub-category covered activities ranging from owning a sidewalk or mobile food kiosk to a sit-down restaurant, catering, food delivery and other food and beverage services. Micro-entrepreneurs in real-estate renting and business activities might refer to overseas Filipino workers and migrants who had invested in condominium units and apartments for sub-letting. NGO MFIs, co-operative federations and large primary co-operatives also invested in real-estate renting through construction of co-operative-owned malls, hostels, conference resorts and office buildings. Figure 6.2 shows the distribution of micro-enterprises registered by industry.

Figure 6.2: Proportion of micro-enterprises to number of registered establishments



Note: Micro-enterprise means a business with total assets of less than PhP3 million; and employs one to nine workers.
Source of data: Department of Trade and Industry.

Colonisation of the microfinance industry

The dataset on microfinance had shown the incursion of commercial banks and private investors to the profitable microfinance industry. Some of these banks and private investors have set up their own private foundations to become eligible microfinance conduits. The passage of Republic Act 10574 in 2013, which allows up to 60% of foreign equity in the capital of rural banks, does not bode well for NGO MFIs. Similar to the UK privately-owned social enterprises, some of these private MFI foundations and banks were found to sub-contract their microfinance or micro-insurance operations to NGO MFIs and co-operatives offering microfinance products to the poor (Microfinance Council of the Philippines, Inc. [MCPI], 2010; Vallecera, 2012).

Increased competition from commercial banks was found to drive interest rates down, which was deemed good for poor borrowers, but detrimental to the operations of NGO MFIs that have less financial resources. As one respondent from Case Study 2 rued, with their financial clout, commercial banks colonising the microfinance industry could drive out NGO MFIs (Rosalinda, CSO Co-operatives Federation – interview). Increased competition was also feared to result to ‘multiple borrowings’ by the poor or to ‘credit pollution’, which in microfinance parlance meant increased delinquencies and non-repayment of loans that would adversely affect NGO MFI operations (MCPI, 2010, p. 17).

Despite the upbeat prognosis on microfinance, all might not be well in the industry. In recent years, a number of co-operatives, NGOs and rural banks with hundreds of millions in loans from state financial institutions had already ceased operations while defaults on loan amortisations have been increasing. For example, in 2010, Land Bank of the Philippines wrote off PhP471 million (AUD11mn) in loans to agricultural co-operatives and rural financial intermediaries, a ten-fold increase over the written off amount of PhP48 million (AUD1.1mn in 2009 (COA, 2011b)). Of the PhP471 million written off, 88 % were loans extended to co-operatives while 12% went to rural banks. Two regions in Mindanao, Northern Mindanao and SOCKSARGEN had 81% of these written-off loans. Also the number of microfinance conduits of People’s Credit and Finance Corporation had been declining from 188 organisations in 2006 to 136 in 2009, a reduction of 28% (COA, 2011c). Also, the state financial institution had written off PhP99 million (AUD2.3mn) from 2001 to 2010 and a total of PhP124.7 million (AUD2.9mn) of loans extended to rural banks, NGOs and co-operatives were in litigation.

Likewise, other state financial institutions were experiencing difficulties collecting repayments from microfinance conduits. Perhaps this was the reason the Asian Development Bank recommended that the People’s Credit and Finance Corporation remained a state corporation. The Social Reform and Poverty Alleviation Act of 1997 originally intended its privatisation to market-

oriented SEOs. An ADB study in 2005 recommended that it was best to remain a state corporation so it could continue accessing concessionary loans (2007b). But, as a state corporation, its loans were sovereign debt and, even if microfinance conduits defaulted on their loans, the financial interests of the so-called social investors (ADB, 2010) would be protected by the state. However, it would still be the ordinary taxpayers at the bottom of the pyramid who would eventually shoulder this burden

Mission drift

Unlike in India, Bangladesh, and some African countries, where coercive collection practices have been documented (Daley-Harris & Awimbo, 2011; Karnani, 2011), there seemed to be no studies yet on coercive collection practices by Philippine MFIs. However, anecdotal evidence seemed to point to their occurrence. For example, interviewed core leaders of the SAFRUDI-organised GBP (*Gabay sa Bagong Pag-asa* community organisation) in Case Study 1 related instances where local field collectors threatened to stay in the house of a borrower until she had paid. Staying meant providing board and lodging to the field collector, leading not only to added expense on the part of the borrower, but also to loss of face in the community (GBP core leaders – group interview). Hence, mission drift appeared to affect some MFIs. Perhaps this was the reason the MCPI adopted the global ‘Smart Campaign’ to protect microfinance clients from over-indebtedness and less than transparent practices of MFIs (MCPI, 2010, p. 26). The recorded defaults and litigations involving microfinance conduits in the previous section might already be signs of credit pollution.

Although social metrics were laudable tools to measure the social impact of SEOs, it seemed that only large market-oriented SEOs could afford to implement them. Since some were quite technical, they required additional investment in terms of a dedicated research and development staff and equipment. Of the ‘simpler’ social impact tools, such as the Progress-out-of-Poverty Index designed by Grameen Foundation USA, only a few had adopted it (Chua, et al., 2012). While commentators agreed that social accounting is important, it should not be investor-driven or state-driven tools. Rather, as discussed in Chapter 2, the social and economic impact of SEOs must be measured against the values to which they adhere to assure society that their accomplishments indeed benefit the intended beneficiaries or communities (Pearce, 2003). In this regard, the PPI appeared to be a relevant measure.

Bringing civil society back in

Evers (2008) argued that organisational isomorphism should not be viewed negatively since it would bring in critiques from CSOs that were sidelined by the turn to social enterprise and social

entrepreneurship. Other commentators agreed as well to ground the social economy to its critical roots in civil society to avoid co-optation by the state or the market. As the historical accounts in Chapters 2-3 showed, rulers, wealthy elites, and powerful religious institutions have alternately used, banned, and regulated TSOs to suit their vested interests and ideologies. The historical and political re-reading of the Philippine civil society in Chapter 4 showed that it is no less different. Given the belligerence of Philippine CSOs and the privileging of certain organisations by the state, ODA donors, or the church, it seems challenging how critical voices can be accommodated without further fragmenting the already fractious Philippine civil society.

Although the *Gemeinschaft* values of solidarity and reciprocity were found to be strong among like-minded organisations, it can conversely translate into divisive, regional political loyalties, familialism, and narrow sectoral, religious or ideological interests. Having lost a common political agenda, ideological differences among development-oriented NGOs and political advocacy-oriented groups can sometimes erupt into highly public quarrels that pit one CSO against another (Macasaet, 2011; Tanchuling, 2011). Even faith-based CSOs are not immune from schism (Bernas, 2011b; Mendoza, 2009; Regencia, 2007). Although this might be taken as part of the democratic process, intra-civil society quarrels can be disconcerting when juxtaposed against more powerful economic and political interests. Thus, it might require not just a convivial public space but a political will among the social actors to transcend their differences and address the issue of semiclientelism that mute the voices of the basic sectors they claim to serve.

In his critique of TSOs as panacea to market and state failures, Edwards (2004) advanced two main theses on how the integrated efforts of the state, the market, and CSOs can strengthen civil society. First, the state cannot abscond from its responsibility of setting the 'preconditions' that allow citizens to join associations, engage in public conversations, and pursue the good society they envision. The preconditions include breaking down the economic, political, and social structures that prevent people, especially the poor, from becoming 'active citizens'. This would put paid to the current practice of middle class NGOs to speak in behalf of the marginalised sectors and the patron-client relationship that the state engenders. Second, rather than organising or contracting organisations for welfare service provision or address market failures, the state and the market should support civic and social innovations that allow citizens to 'operate in service to the good society through the public sphere' (pp. 95-96). While these may not resolve the ideological differences among civil society actors, Edwards believe that being in a secure and democratic public space augurs well for CSOs to sort out how they can work together to pursue the good society without fear of violence or persecution. As Evers (2008) also explained, the social economy does not intend to transplant the state or the market sector. Instead he viewed social economy as being

complementary to the state. The secondary data analysis demonstrated that while the sector buoys up Philippine society, SEOs cannot provide the long-term solution to poverty.

Conclusion

This chapter reported on the findings relating to the historical roots and nature of the Philippine social economy, the discourses that constructed it, the most influential social actors and how they exerted their influence and its contribution to the economy. It showed that the democratic space created during the post-Marcos period contributed to the blossoming of the Philippines social economy. The literature review showed that while the rise of social enterprises in developed regions was viewed by EMES as a renewed expression of civil society to redress state and market failures, the rise of market-oriented SEOs in the Philippines might be seen as the translation of Philippine civil society's alternative vision of society, politics and economy. Unlike in developed countries, the social actors that played a major role in the emergence of the Philippine social economy were very diverse. They included not only local civil society actors and grassroots communities but also the State, the Church, ODA donors, foreign governments, and international NGOs. However, the downside was the political energy of Philippines civil society was re-channelled away from contentious politics to protect capitalist interests. Internationally, this seemed true as well where governments perceive social enterprises as preserving the status quo because they do not disrupt the social order.

Three discourses were discovered to construct the Philippine social economy. These included the economic discourse relating to the US and UK concept of social enterprise, the fair trade discourse with its roots in alternative trade or solidarity movement, and the triple bottom line or CSR discourse. While there was a nascent social enterprise theorising, the PhilSEN network demurred on agreeing on a definition that might limit the sector. Indeed, even with the European understandings of the plural economy, categorising SEOs according to the social economy taxonomy proved challenging since the blurring of boundaries among the three sectors of the economy seemed more pronounced in the Philippines than in developed countries. Employing Evers' concept of hybridisation showed that the process of hybridisation and organisational isomorphism worked both ways and seemed to mirror each other. Although market-oriented SEOs demonstrated their ability to combine entrepreneurialism and provision of basic services for the poor, the pull of market isomorphism appeared stronger. Among subcontracting SEOs, the power of the state to co-opt their democratising agenda was found greater. The hybridisation process of

Philippine SEOs also showed that blending opposing values and principles, including participatory governance, were trickier than hybridising resources.

Although there was no official measurement yet to capture the size of the Philippine social economy, secondary data mined from existing government and NGO archives showed a substantial contribution to the social and economic life of Philippine society. However, unlike in the UK, the USA and Australia the biggest contribution comes from the remittances of overseas Filipino workers and migrants to the community/household sector. Their annual infusion of foreign currency appears to be the lifeblood that keeps the social economy alive. However, the social economy cannot be expected to resolve the long-standing problem of poverty.

The findings of this study need to be viewed in the light of the strong pro social economy sentiment in civil society, especially among NGOs and development practitioners and the Filipino government's strong expectations that the social economy can and will redress social and economic injustices resulting from the failures of state institutions and the market. The next chapter presents the experiences of actual social enterprises represented by SAFRUDI and its CBE partners in the post-ODA social development financing period.

Chapter 7

Findings 2: SAFRUDI and CBE partners

This chapter presents the first part of the findings of Stage 3: Case study of SAFRUDI and 11 of its CBE partners. It presents the experiences of SAFRUDI and its active CBE partners (n=7) in terms of the main dimensions of the EMES SE framework combining FT principles as indicators. The second part discussed in Chapter 8 presents vignettes of four inactive CBE partners seen in light of the unintended consequences of SAFRUDI's socioeconomic program.

The chapter addresses three issues: firstly, the extent to which the case may be considered a social enterprise; secondly, the extent to which the case study may be considered a fair trade organisation; and thirdly, the economic, social and governance issues and challenges and how these are addressed. As regards the specific research questions, Case Study 1 aimed to find out the scope of operations of SAFRUDI, its main source of income, its key stakeholders, the key partnerships that strengthened its activities, the number of people or community-based enterprises that benefited from its activities and the benefits they enjoyed, what CBEs attached to SAFRUDI identified as social enterprises engaged in fair trade and what it meant to them, how SAFRUDI's understanding of being a fair trade social enterprise translated into its VMG, and the contributions of SAFRUDI in deepening economic democracy and promoting sustainable social development.

Part 1: Discussion of SAFRUDI and active CBE partners

Following Huybrecht and Defourny's approach of subjecting FTOs' fit to the EMES SE conceptual framework, the findings of the first part are presented in Table 7.1. Each of these is then discussed in the chapter. Throughout the chapter the terms FTO (fair trade organisation) and ATO (alternative trade organisation) are used interchangeably since SAFRUDI used both to refer to their fair trade buyers.

Table 7.1: Summary of questions and findings

Economic dimension: The scope and operations of SAFRUDI, i.e., its trading activity to economically assist – through better trading conditions – partner producers; its market performance and entrepreneurial capabilities to survive the mainstream market while advocating equitable trading relationships; and the mix of income from trading and non-trading income to support its operations were analysed in this dimension.

1. A continuous activity producing and selling goods.

The main finding under this indicator was SAFRUDI had been producing and selling handicrafts for export since its inception. However, from the mid-2000s its fair trade market had been declining and the 2008 global financial crisis had shrunk it further. Four major factors might have contributed in curtailing its market, such as ATO buyers restriction¹ of SAFRUDI's market to the Western autumn and winter seasons, premium price of fair trade products, declining number of ATO buyers and trade policies of buying countries.

2. A significant level of economic risk.

Consistent with this EMES SE indicator, SAFRUDI and CBE partners were found to take on a significant level of economic risk to stay relevant in the market. They do this through constant re-invention and development or location of new products. However, product segmentation, low purchase order translation rate, and competition seemed to constrain market expansion. As a result, annual losses had dwindled SAFRUDI's assets and reserves.

3. Payment of a fair price and fair wage.

The main finding under this indicator was while SAFRUDI endeavoured to pay a fair price to producers and fair compensation to its employees and PRWs, market forces appeared to stymie this principle. In order to compete, SAFRUDI, CBE partners and FTO buyers seemed to reinforce the economic injustice against marginalised workers through target price-setting, which basically meant discounting labour. The evidences supporting this finding were related to the:

1. Concept of fair price and fair wage and FTO buyers' practice of target price-setting.
2. Interrelated phenomena of a formal labour price based on mandated daily minimum wage rates by region and existence of a traditional artisanal production system that paid community wages.

Social dimension: The analysis focused on how SAFRUDI pursued its vision of fairness and 'greater equity in international trade' and long-term goal of sustainable development; organisational constitution of SAFRUDI in terms of who were the members of the board of trustees/directors, and how partner producers were empowered by the trading relationship; organisational or legal form of SAFRUDI that allowed for limited profit distribution. In terms of the research questions, this dimension addressed the number of people and CBEs that benefited from SAFRUDI's activities, the benefits they enjoyed, how SAFRUDI's experiences as a SE FTO translated into its VMG and its contributions to deepening economic democracy and promoting sustainable social development.

4. An explicit aim to benefit the community – piece-rate workers, CBE partners and GBPs – while promoting a sense of responsibility.

Indicators 5-9: Fair trade principles advancing social justice, including promoting fair trade, gender equality, payment of fair price and fair wages, safe and healthy working conditions and creating opportunities for disadvantaged producers and capacity building of producers and workers.

The main finding in this dimension was due to market pressures, adherence to the VMG of total human development and fair trade principles was problematic and challenging for SAFRUDI and CBE partners. This was evidenced by data showing that:

1. Benefits and disadvantages were differentially distributed among different types of communities: SAFRUDI piece-rate workers and their families were the most negatively affected, while family enterprises appeared to benefit the most.
2. Rather than changing the unequal trade relations between developed and less developed countries, SAFRUDI and FTO buyers seemed to have adopted capitalist practices resulting in market isomorphism. In turn, this might have reinforced factors, including the personal aspirations and dreams of CBE partners that militated against the aim of developing viable family enterprises and producers.

Participatory governance dimension: This dimension analysed how SAFRUDI's avowed principle of 'trading partnership, based on dialogue, transparency and respect' was practiced in relation to partner producers; how SAFRUDI, backed by buyers, pursue awareness raising and education to change the inequitable 'rules and practice of conventional international trade' (WFTO, 2001); and, how the governance structure of SAFRUDI is implemented.

10. CBE partners and GBPs (Gabay sa Bagong Pag-asa or Guide for a New Hope Associations) have the right of 'voice and exit'.

11. Ensuring the accountability and transparency of fair trade principles.

It was found out that while dialogue, transparency and respect was adhered to, achieving the aim of deepening economic democracy and sustainable social development through participatory governance was mixed and ambiguous because:

1. In a buyers' market, exercising the right of voice and exit was against the interests of the seller/producer.
2. Although annual visits by FTO buyers helped ensure the trust good character and protect the niche market of fair trade crafts in the North, their impact on SAFRUDI and CBE partners seemed limited. Since the niche market could not be expanded significantly, the visits did not translate to more concrete, long-term outcomes for the producers, such as higher purchase orders, greater appreciation for their artisanship through higher prices and sustained political and fair trade advocacy at the global level.
3. Organisational structure mirrored a market model while an NGO work culture pertained and this generated mixed results.
4. The biggest management challenge was how to balance the social and economic needs of all stakeholders.

Economic and entrepreneurial dimension

This dimension analysed the scope and operations of SAFRUDI, i.e., its trading activity to economically assist – through better trading conditions – partner producers; its market performance and entrepreneurial capabilities to survive the mainstream market while advocating equitable trading relationships; and the mix of income from trading and non-trading income to support its operations. The blended EMES SE and FT indicators were:

1. A continuous activity producing and selling goods.
2. A significant level of economic risk: organisational sustainability is dependent on SAFRUDI's ability to secure resources.
3. Payment of a fair price and fair wages.

1. A continuous activity producing and selling goods.

The main finding under this indicator was *SAFRUDI had been producing and selling handicrafts for export since its inception. However, from the mid-2000s its fair trade market had been declining and the 2008 global financial crisis had shrunk it further. Four major factors might have contributed in curtailing its market, such as ATO buyers restriction' of SAFRUDI's market to the Western autumn and winter seasons, premium price of fair trade products, declining number of ATO buyers and trade policies of buying countries.*

1. ATO buyers' restriction of SAFRUDI's market to the Western autumn and winter seasons

SAFRUDI's fair trade market followed the Western marketing strategy associated with the four seasons. In previous years, ATO buyers bought SAFRUDI handicrafts suitable for each season. During the period under study (2005 to 2010), ATOs seemed to have restricted SAFRUDI's market to the autumn and winter seasons. It was not clear though whether this was a deliberate marketing strategy to benefit as many Southern producers as possible or an indication of the limited niche market of fairly-traded handicrafts worldwide. Huybrechts and Defourny (2008) noted that many of the FTOs they studied (some of them SAFRUDI buyers) hardly made profits from their operations. From SAFRUDI's perspective, however, even though it offered a wide range of products that fit all seasons, it seemed like price was the main consideration for its limited and shrinking fair trade market. As Cesar explained:

Most of our buyers order only for the autumn and winter seasons. We get very few orders for the spring and summer seasons. An FTO from the UK used to order from us for their spring and summer collections. I think our buyers find our products expensive because similar products can be bought from African and other Asian countries at a lower price.

Although the producers are fair trade producers too, their minimum wage rate is lower, so they can offer their products at a cheaper price than us (Cesar – interview).

In the SE and FT literatures, competition is an acknowledged fact: FTOs compete against each other to sell FT commodities and crafts from Southern producers to Northern consumers. In the same vein, Southern FT producers compete against each other to sell to Northern FTO buyers. With the increasing number of FTO producer-exporters, SARFUDI as an intermediary marketing organisation seemed to have been bypassed. Since ATO buyers can go directly to other FT producers SAFRUDI's market shrunk. Thus, the range of products that it traditionally sold had narrowed down to capiz and 'small' items, consequently reducing its overall sales:

The products that have remained in-demand are capiz products. Hand-woven bags, baskets and even small furniture used to be best-sellers. The competition is very stiff. Also, because within the Philippines many organisations have become FTOs and they now export directly to fair trade buyers. So if other FTO products are cheaper than ours, then buyers will order from them (Ester – interview).

Table 7.2 shows the declining trend of SAFRUDI's export sales from fiscal year 2005 to 2010. Except in 2007 where export sales exceeded the 2005 figure, sales after the global economic crisis in 2008 remained below the baseline year.

Table 7.2: Annual export sales, from 2005 to 2010

Fiscal Year	Export Sales in USD	Growth Rate (%)
2010	523,835.00	16.7%
2009	448,900.00	-7.2%
2008	483,907.20	-25.6%
2007	650,606.00	42.4%
2006	456,983.00	-16.0%
2005	544,027.00	-

Note: SAFRUDI used the fiscal year beginning on 1st September of a given year and ending on 31st August of the following year.

Source of data: SAFRUDI Annual Reports from FY 2004-05 to FY2009-2010

2. Premium price of fair trade products

Similarly, the domestic sales of SAFRUDI's ManoMano Fair Trade Store paralleled the declining trend in export sales (Table 7.3). However, the local market was considerably smaller than the

export market. If converted into dollars, the peso sales would constitute only a small fraction of the dollar sales.

Table 7.3: Annual local sales, from 2005 to 2010

Fiscal Year	Local Sales in PhP	Growth Rate in %
2010	325,417.00	30.2%
2009	250,000.00	-62.1%
2008	659,256.00	-15.1%
2007	776,434.80	7.0%
2006	725,640.00	60.0%
2005	453,525.00	-

Source of data: SAFRUDI Annual Reports from FY 2004-05 to FY2009-2010

Again, the reason for the small local market share was attributed to the high price of fair trade products making them out of reach of Philippine consumers:

We really can't compete in the mainstream market. Whenever we exhibit our products, they'd say our price is three times higher than other commercial producers (Ester – interview).

3. Declining number of ATO buyers

From over 40 ATO buyers at its peak in the late 1990s to the mid-2000s, the number of buyers had declined to 24 in 2011. They included some of the biggest faith-based ATOs in developed countries, such as GEPA-The Fair Trade Company-Germany, Fair Trade Organisatie-Netherlands, Traidcraft plc-UK, Les Magasins Du Monde-Belgium, Oxfam International and its affiliates, EZA Fairer Handel GmbH-Austria, Ten Thousand Villages USA and Canada, SERRV-USA and Oxfam-Australia (SAFRUDI, 2001, 2006). From this roster of FTO buyers, there seemed to be a smaller pool of dedicated buyers that accounted for a large share of SAFRUDI's sales. Its list of 'Top Ten Buyers' during the period under review, for example, showed that 12 out of 20 ATOs were consistently listed for a certain number of years. Four ATOs had been on the list for six consecutive years, five for three years, two for four years and one for five years. Together, these top buyers captured more than 80% of annual export sales. While having a pool of dedicated ATO buyers had an advantage, SAFRUDI acknowledged that the lack of new fair trade buyers limited market expansion and threatened growth. With declining annual sales, the organisation suffered losses from 2008 to 2010 (Table 7.4).

Table 7.4: Net income/(loss), from 2005 to 2010

Fiscal Year	Net income/(loss)	In USD*
2010	(PhP1.2mn)	26,601.64
2009	(PhP3.4mn)	71,368.60
2008	(PhP3.2mn)	71,958.62
2007	+ net income, not given	
2006	Na	
2005	Na	

* Using average Peso:Dollar rate for the year.

Source of data: SAFRUDI Annual Reports from FY 2004-05 to FY2009-2010

According to Huybrechts and Defourny (2008), ‘product constraints are heavier’ in the crafts industry, which is why a number of small Northern FTOs cannot survive while other FTOs generate hardly any profit (p.193). Of the FTOs they studied, only one out of 10 made regular profits. Indeed, according to Rudi Dalvai, WFTO president, there had been no lack of trying to mainstream handicrafts but only a few succeeded (T. Hall, 2011). With the global recession since 2008 negatively affecting by more than 30% the annual sales of Northern FTOs (WFTO, 2012), it seemed that SAFRUDI’s sales would remain flat in the foreseeable future.

4. Trade policies of buying countries

Aside from a shrinking market, the trade policies of buying countries were also affecting the economic viability of SAFRUDI. These included Austria’s ban on the import of products using marine shells and health and safety regulations in developed countries. For example, the UK and the USA had banned the use of lead and nickel in jewellery findings, such as hooks, ear wires, chains and clasps. While US buyers assisted SAFRUDI in sourcing lead-free and nickel-free jewellery findings, SAFRUDI could not claim their fashion accessories were 100% nickel-free and lead-free (SAFRUDI, 2010a). Some buyers also required certification that findings used had undergone independent testing. But, since SAFRUDI did not have the means to test these metals, it had requested that FTO buyers undertake the certification themselves:

Some of our buyers asked for certification declaring that the jewellery findings were lead-free and nickel-free or made of hypoallergenic steel. Although the findings supplier assured us that they were lead-free and nickel-free we had no proof and document to show. One of the UK buyers that ordered fashion accessories decided not sell them, even if we did not have any negative feedback from the US buyers that ordered similar products. The UK FTO thought it more prudent to withhold them rather than being besieged by customer

complaints. Since we didn't know if there was an organisation in the Philippines that tested metal for lead and nickel content, we advised buyers to test the items in their home country ... besides the added cost should be shouldered by them (Marketing staff – group interview).

2. A significant level of economic risk

Consistent with this EMES SE indicator, *SAFRUDI and CBE partners were found to take on a significant level of economic risk to stay relevant in the market. They do this through constant re-invention and development or location of new products. However, product segmentation, low purchase order translation rate, and competition seemed to constrain market expansion. As a result, annual losses had dwindled SAFRUDI's assets and reserves.*

1. SAFRUDI and CBE partners engaged in constant re-invention and development or location of new products.

The social entrepreneurship literature extols unceasing innovation, creation of value, and bold action to pursue the SE's social mission (Dees, 1998; Drayton, 2005). If one were to be guided by the stories told by producers' associations and family enterprises, the overall narrative for SAFRUDI and CBE partners' continuing ability to assist marginalised producers and workers would be one of constant re-invention and search for new products that could be offered to the export FT market. Hence, they meet the criteria possessed by social entrepreneurs. As an example, in the 35th year anniversary magazine of SAFRUDI, a family enterprise owner who became a CBE partner in 1968 narrated:

We carved 'Madonna and Child' statues for Belgium. This went on for many years. When the price of woodcarving couldn't compete in the world market, orders decreased to a level that threatened my business. It was time to shift. I ventured into paper pulp and papier-mâché, which had a good market in Germany and Australia ... Business was brisk from 1985 to 1990. I had a core of 12 workers who earned PhP150 per day. I hired as many as 250 piece-rate workers at a time when the orders were big. In the mid-90s, demand began to decline because of globalisation. It is time for me to look into other crafts. Maybe candle-making (SAFRUDI, 2001, p. 15).

For its part, SAFRUDI ventured into other product lines, such as capiz shell in 1991 and coconut coir (coco coir) in 2003. Coco coir products, however, did not prove a viable in-house item due to high production costs and noise pollution (Interview with Vicky). Instead, SAFRUDI turned over the technology and sold its equipment to a family enterprise based in a major coconut-producing

province to manufacture coco coir products for the organisation. At its peak, SAFRUDI employed 90 piece-rate workers in its in-house manufacturing unit, which included three sections, namely, stitching, home-based workers and capiz production (SAFRUDI, 2001). It marketed handicrafts from more than 50 CBE partners to over 40 ATO buyers.

The product range marketed by SAFRUDI included the in-house capiz shells products and handicrafts made from different forest-based materials. These included abaca (*musa textilis*), acacia wood, bamboo, coco coir, coconut shells, plant seeds, *moras* (vetiver grass) and *nito* (*lygodium circinatum*). The handicrafts were classified by product categories, such as home and garden accessories, kitchenware, Christmas décor and fashion jewellery and accessories. The home and garden accessories included capiz shell⁴ candle holders, laminated capiz shell lampshades, flower vases, tissue boxes, bamboo storage boxes, hampers, baskets and bamboo and capiz shell dream catchers. Kitchenware included acacia wood bowls, salad sets, napkin rings, *nito* tray sets and *moras* kitchen ornaments. Christmas décor included Christmas tree ornaments such as laminated capiz balls, capiz stars with wire frames, abaca angels, birds of peace and others. Fashion jewellery and accessories ranged from body accessories such as earrings, bracelets and necklaces to key chains, bookmarks and hand-woven bags. Materials used for the latter included laminated and non-laminated capiz, plant seeds, soft wood and abaca twine. The bestselling handicrafts during the period under review were capiz shells as Christmas décor, fashion jewellery and home accessories, wood-based kitchenware sets and bamboo wind chimes for home and garden use.

2. Investments made by SAFRUDI and CBE partners on product research and development were not being recouped due to product segmentation, low purchase order translation rate and competition.

While SAFRUDI and a few CBE partners invested in product R&D, commercial success appeared not guaranteed. Despite being in the FT movement, ATO buyers and SAFRUDI were discovered to adhere to the mainstream business practise of strict product line segmentation between domestic and export markets. Thus, it seemed contrary to the FT vision of changing unequal trade practices and trade relations. For example, the product lines sold by the ManoMano Fair Trade Store were similar to SAFFY's export products but the style and designs were different.

We encourage them to sell their products to local buyers. That is okay, as long as they don't sell products that are exclusive to our buyers (Cesar – interview).

⁴ Capiz shell meant that the material was used in its natural form to produce handcrafted items while laminated capiz was processed using adhesive chemicals to bond and manipulate capiz shells into various shapes and sizes.

Although CBE partners were able to consign their items to the ManoMano Fair Trade Store intended for the export market, it was only because their product samples were not acquired by SAFRUDI or the items were rejected and sent back by FTO buyers:

Some buyers send back rejected items to us ... But before sending them to producers, we ask them if they'd like to consign the items in the ManoMano store ... So we help them recoup their loss. On the other hand, it does not occur often that buyers return rejects (Ester – interview).

As a result of market segmentation, SAFRUDI had accumulated over the years more than 6,000 unique items as product prototypes that were exhibited in its display centre for international buyers:

If you look at our handicrafts display, you will see that we already have a lot. We have more than 6,000 unique items in our display room. Yes, probably even more. Every year we go to Ambiente and we exhibit about 200 items. Imagine we've been participating in it for several years. In addition, buyers request for product samples during the year. We have our own designs as well as the suppliers' (Cesar – interview).

Since these items were offered exclusively to foreign buyers, investments made by SAFRUDI and CBE partners on product research and development were not being recouped. As Cesar illustrated:

When I got here in 2005, I asked the marketing team to make an inventory of all the products in the display room. We had more than 5,000 then. So, I told them to weed out the non-moving items. By that, I meant that we should remove the old items. But we should take a picture of each product to have a soft copy and for inventory purposes, as well. Some of the old products were sealed in the warehouse and some were thrown away. We keep only the moving orders in the past five years. We might need to do a weeding out again soon. There are other products that the buyers still order but with some modifications. So, it is important that we have the inventory and soft copies (Cesar – interview).

Because production was contingent on actual demand, SAFRUDI and CBE producers seemed to be caught in a dilemma between 'product research and development' to maintain its limited market and investing in 'risky' new product lines or markets that could expand its scope. In the past, to achieve sustainability and ensure the livelihood of PRWs and partners, SAFRUDI produced handicrafts for sale in the domestic market. But since supply outpaced market demand,

the organisation was saddled with a huge inventory of slow moving goods. To stem the losses that were consuming its accumulated surplus, the practice was discontinued in the mid-2000s:

During our former executive director's time, she would ask in-house production to produce if there was no order and then told marketing to sell the products. Although she ensured the welfare of the workers, our product inventory grew because marketing couldn't keep up. Eventually we couldn't sustain it. It's very hard for money to come in. You can really feel the brunt of the crisis now. Because I'm the one who oversees the organisation's finances, I get alarmed whenever I see our losses. When I started 13 years ago our total assets amounted to PhP55 million (AUD1.2mn). In the balance sheets, you'll see that total assets are now down to PhP34 million (AUD755,556). So, it's really alarming (Vicky – interview).

The inability of the local market to absorb increased supply was attributed to the nature of the handicraft products themselves. Unlike basic consumer goods, handicrafts were not 'consumables', i.e., easily used up and replaced. Hence, SAFRUDI was banking on the fair trade food market for expansion:

We don't have production for inventory, unlike others who continuously make products. Our products are not consumable. They are only for display or decoration. We cannot ask in-house to produce for inventory or stock because our buyers already have their stock. It would only be a waste of resources on our part, which is also one reason why we want to go into the food industry. If that could materialise, then it might lead to continuous in-house production. Piece-rate workers would then have a year-round job (Cesar – interview).

Given that its export market for traditional handicrafts appeared saturated, SAFRUDI was looking at several options to re-vitalise growth. However, these options needed to be tested and investments had to be made out of its shrinking resources. In the past, SAFRUDI and CBE partners had accessed external funding from organisations, such as Oxfam International, to strengthen their capabilities in responding to market needs (ICLEI-Local Governments for Sustainability, 2006). For example, Oxfam supported SAFRUDI's initial foray into the upscale domestic market in 1999 before it could determine whether there was a market for fair trade handicrafts in the Philippines. While its excursion in two upscale malls turned out to be short-lived, it did not stop funders from supporting SAFRUDI when, in 2005, it renovated an old building in its Manila headquarters to house the ManoMano Fair Trade Store even though its location was not ideal:

Our promotion of fair trade products isn't getting that much attention locally. One problem is our store is out of the way. You have to go there purposely. We can't rent a space because it's very expensive. We really ought to use different marketing strategies to entice people to come and buy our products (Cesar – interview).

Although the organisation had a marketing unit, it seemed that it had not exploited the opportunities available in unexplored markets, having concentrated on its traditional fair trade partners. Some of the untapped markets that the organisation planned to venture into included the Middle East and, as stated earlier, the fair trade food market. However, the fair trade food market was viewed as providing better market potential than opening up an uncertain market for traditional handicrafts:

We are looking at the Middle East, in Dubai, but we are not yet sure if we can go there. It seems that some of our producers are not interested in Dubai. We are also planning to go into food processing where there is greater potential in the export market. But we still have to strengthen our research and marketing strategy in this particular investment. We are considering *pili* nuts and peanut products. Of course we will take into account how buyers look at this range of products. They should be marketable, but food is going to be our new product line (Cesar – interview).

To test the market, SAFRUDI had already introduced processed fair trade food, such as muscovado sugar, fruit jams and virgin coconut oil in the ManoMano Fair Trade Store on consignment basis. This meant that producers were paid only on goods sold during the consignment period, usually 30 days. The consignment system helped ensure that cash investments on goods were kept to the minimum.

In previous years, SAFRUDI used to join major corporate shows and the prestigious Manila FAME International Trade Exhibit but, due to lack of sponsors, it had stopped going to these trade fairs. Except for the annual Ambiente Trade Fair in Germany, which it regularly attended and the Bangkok International Festival in 2006, it had become selective about joining trade fairs. For the annual Ambiente Trade Fair, SAFRUDI and partners usually teamed up to develop new product prototypes that SAFRUDI designed. Although producers were encouraged to develop their own designs, SAFRUDI's in-house designer led the way in designing new items while CBE partners produced the prototypes:

Because SAFRUDI doesn't have the necessary expertise to teach each producer to make designs, we only conduct product development projects when we have exhibits abroad or

here in our country. We assign them three to five projects that will be exhibited. However, we provide the designs ... all they have to do is to execute them (Cesar – interview).

Annually, SAFRUDI unveiled more than 200 new products in the Ambiente Trade Fair. Despite the wide range, it seemed that the number of orders was not proportional to the investments made. For example, in the 2010 Ambiente, 289 new items were displayed but the marketing department estimated only a quarter was translated into direct orders (ManCom⁵ meeting notes, 26 October 2010). The number of new products did not even include samples requested by FTO buyers throughout the year. For example, out of 70 new samples developed for buyers in 2010, only about five or six items were ordered. The marketing department also estimated that 90% of FTO buyers and end-consumers were value-conscious so there was stronger pressure on SAFRUDI to explore competitively-priced new product lines and untapped markets to increase sales. Given the resources expended on product research and development and the corresponding low returns on investment, Cesar believed that it was important to analyse sales trends to minimise investment on non-moving products:

I actually want to reduce that number because it's a lot to bring to exhibits. So, I told them [marketing] maybe we should study our past exhibits and see which ones received an order the following year ... so, we will look at the trends and patterns (Cesar – interview).

With minimal returns on investment, CBE partners appeared justified in not risking their limited resources on costly research and development or in not hiring their own in-house designers. The following examples showed the predicament besetting CBE partners:

They told me that my products are no longer in demand because I have not developed any new product ... I decided not to develop new products because the materials are very expensive now ... I have been a supplier for a long time and I have come to believe that it's not worth the effort ... even if SAFRUDI pays for the samples, pricing-wise you can't compete ... so it's just a waste of time ... when the product reaches the buyers abroad, they can't accept the price (Forest Works family enterprise – interview).

We don't think we will create our own designs ... unless we have money. We can't be sure if our buyers will buy our designs. In 2006, we sent samples to SAFRUDI because they participated in a trade fair in Bangkok. However, we didn't receive any orders for the

⁵ ManCom stands for Management Committee and is composed of six department heads and the Executive Director. The organizational structure is discussed in *Corporate structure versus NGO culture* section (p. 289).

samples we sent ... They always tell us to make samples, but it is very expensive ... not all the samples we sent to SAFRUDI were paid for (Buri Handicraft Producers' Co-operative – interview).

Thus, most producers relied on designs created by SAFRUDI and FTO buyers to execute because they paid for product prototyping. However, those who invested in their own product research and development appeared to benefit from their investment. Although they lost ownership of their designs, they recouped their capital once SAFRUDI received orders for their product prototypes. On the other hand, price being the main determinant for an order, a design could go through various phases of revision and negotiation to fit a buyer's target price, as these examples show:

Whenever I submit a product sample I designed, it gets revised by the buyer ... the colour is changed, the number of capiz shells are reduced, or the size becomes smaller ... in the end, it doesn't feel anymore that I was the original designer (Renaissance family enterprise – interview).

We explain to our buyers the pricing mechanism. We show them the cost for a certain item and tell them that we could not lower the price anymore ... that's part of the fair price and fair wage principle ... we show them the computation ... the components used, the processes involved ... we explain these so they would understand. Sometimes they would suggest tweaking the design of an item to meet their target price. We would then simplify the design, for example, instead of using 10 capiz petals, we would use five ... or we would change the look of the item, from a bigger size to a much smaller one ... if despite all these changes, the target price still could not be met, they would ask us to do another item (Marketing – group interview).

Other buyers brought with them existing products for local producers to copy, hence reducing the cost of product development:

In 2000, we had a Japanese buyer who brought over a hanging planter with a crazy weave design. We adapted it using various vines as raw material and developed our own crazy weave samples. Of the vines we tried *batang-batang* (a kind of vine similar to *nito*) was the most flexible and durable. When we had perfected the process, the buyer brought the samples to Japan and then we got a big order (Active GBP producers' association – group interview).

The implications of the strict product segmentation between local and export markets are discussed further in the *Social dimension* section (p. 246).

3. Payment of a fair price and fair wages.

The main finding under this indicator was *while SAFRUDI endeavoured to pay a fair price to producers and fair compensation to its employees and PRWs, market forces appeared to stymie this principle. In order to compete, SAFRUDI, CBE partners and FTO buyers seemed to reinforce the economic injustice against marginalised workers through target price-setting, which basically meant discounting labour.* The evidences supporting this finding were related to the:

1. Concept of fair price and fair wage and FTO buyers' practice of target price-setting.
2. Interrelated phenomena of a formal labour price based on mandated daily minimum wage rates by region and existence of a traditional artisanal production system that paid community wages.

1. Fair price and fair wage versus FTO buyers' target price-setting

The WFTO pegged the payment of 'fair wages' to a country's minimum daily wage rate. To determine whether FTOs paid fair prices and fair wages, the international fair trade movement created a fair wage calculator wherein buyers and producers could input the cost of production for a certain item. The calculator was also designed to demonstrate transparency among fair trade practitioners:

There is a fair wage guide calculator. You just go to fairwageguide.com. The fair trade movement developed that. The standards per country are there including the minimum rate. Since we give buyers the computations for determining prices, they'll just input the costs and then they'll see if we pay the minimum rate (Cesar – interview).

Defining 'fair', however, was problematic since the minimum daily wage rates in the Philippines varied by region. Furthermore, while SAFRUDI paid the mandated daily minimum wage and provided piece-rate workers the same benefits accruing to regular employees, CBE partners practised the traditional artisanal production system. This meant wages paid to piece-rate workers, termed the 'community wage', were lower than the mandated minimum daily wage rates. As discussed in Chapter 5, the traditional artisanal production system included 'free' meals and lodging to stay-in workers during the production period. Although the system was justified as 'saving' workers transportation costs and living expenses and might seem benevolent, it also had a darker side. This is discussed later in the section.

As regards the pricing scheme of SAFRUDI, the formula for computing prices included fixed costs, other expenses and the social premium. The latter was the percentage added to subsidise business development services for CBE partners, such as product research and development and market access and the social development program for GBPs. The pricing scheme was similar to the mark-up added by mainstream companies to generate profit. According to Cesar, producers and FTO buyers knew about this formula:

SAFRUDI already has a formula for computing the profit that we add on the price. We tell them that we add a certain percentage for our fixed costs, another for the social premium and other expenses. And then we convert it to dollars ... We add a social premium. Although we are not after the profit, we add the social premium because we use that for the development of the producers and for the social action (Cesar – interview).

Buyers also added their operating costs and social premium to the final price of the item. Thus, by the time it reached the end-consumer, the price might have already reached six or seven times its original FOB (freight on board) dollar price. For example:

If our FOB price for a particular item was \$4.80 and the retail price in a US fair trade store was \$28, the mark-up was six times or 600% of the FOB price ... this is to cover their costs and make a profit (Vicky – interview).

While this might seem high, the mark-up was considered fair compared with mainstream companies that added higher mark-ups on top of discounts for bulk orders:

Their price seems high, but they have expenses, so it is still fair. The same thing happens in non-fair trade companies. They purchase at the FOB price and spend on some fees, but their margins are higher. Although they purchase in volume, they haggle to get the goods at very low prices. We also give volume discounts, but our FOB price is already high to begin with (Cesar – interview).

As a comparison, a pet toy item (see discussions on Buri Handicrafts Producers' Co-operative in Chapter 8) bought at PhP6.95 (USD16 cents) from member-producers was sold in the end-market at USD6. Another item bought at PhP17.35 (USD39 cents) was priced at USD16.50. Assuming all things being equal and the FOB price of the producers' co-operative was USD1, the mark-up added by the buyer would have ranged from 600% to 1650% of the FOB price (Field work notes, 9 February 2011).

As discussed in Chapter 3, the selling price of handicrafts at the end-market was multiplied by a factor of 10. The selling price of an item which was six to seven times SAFRUDI's FOB dollar price appeared within range of the multiplication factor along the supply chain and the buyers' target price seemed to correspond to the selling price that fair trade consumers at the end-market were willing to pay. This was probably the reason that when FTO buyers placed their order for a certain item, they already indicated their target price as a basis for negotiation. Although they endeavoured to pay fair prices, FTOs appeared not immune to extracting lower prices and discounts through target price-setting:

Sometimes a buyer has already agreed to a certain price for an item but it would still ask for modifications in the design. If the cost of the modification is not big, we no longer adjust our price. But if the cost is really significant, we re-negotiate for a higher price. So the cost of modification is a form of discount if the price is not adjusted (Vicky – interview).

However, what seemed discounted in target price-setting were not just the fringe costs but the price of labour itself as the section below shows.

2. Formal labour price versus artisanal production system and community wages

As mentioned earlier, defining the concept 'fair wages' was problematic since the country's mandated minimum daily wage rates varied by region. This was further complicated by the traditional artisanal production system that paid lower community wages. Although some FTO buyers demanded adherence to the minimum wage rate standard, others accepted the lower community wage. For example:

Sometimes, when they see that the amount the artisans are going to get is below the minimum wage, they will not order the products. What we do is we ask the producers to re-compute ... even if the price goes up, as long as the amount that the artisans are getting is right, they will order from us ... sometimes we have to explain that this particular group is in a certain part of the country and that the community wage is lower. The buyers understand that (Cesar – interview).

SAFRUDI and FTO buyers appeared to justify the traditional artisanal production system through the following:

1. Comparing the capacity of CBE partners to mainstream businesses that bewailed the already 'high' wages paid to Filipino workers. For example:

According to the WFTO, fair wage should not be lower than the minimum wage in the country. The problem is, regular businesses are already complaining about the minimum wage rate of the country, so how much more the small businesses? Can you really expect small producers to pay the minimum wage rate to their workers? So, what they do is they apply the community wage (Cesar – interview).

2. Allowing CBE partners and workers to discuss the piece-rate pay based on the cost of production ‘approved’ by SAFRUDI:

Our partner producers show us [their] quoted price for certain items. Once we have approved them, they would inform the workers the cost of the materials and the amount that the workers would get ... So, they discuss and come into an agreement that the pay for a certain item will cost this much. The principle of fair trade is still there because of the dialogue, transparency and respect (Cesar – interview).

3. Working within the target price set by a buyer.

We tell them [producers] how much a buyer can afford. The buyers also compute if they can afford to buy items at a certain price. Sometimes they say they can’t afford it and they ask if the price can be lowered (Cesar – interview).

While the community wage rate might make sense from an economic point-of-view, it also highlighted the contradictions inherent in a market-based democratic reform agenda:

There are some buyers though who bargain for a cheaper price. We’ve already explained to them how the workers are paid and they’ve seen the computation for the price of the items. I really don’t understand why they call us to bargain for a cheaper price. If you’re a fair trade member, you really shouldn’t be asking why our items are more expensive than the ones outside who are not fair traders (Anthony – interview).

Sometimes they cancel their order when we cannot reach an agreement on the price, or they would decrease the volume of their order. We have a fair trade buyer that used to order coco coir in large volumes. However the FTO stopped ordering from us when we couldn’t meet its target price. It kept asking us to lower the price but the materials were expensive and the production process very long. Because it couldn’t get its target price, it looked for another supplier (Vicky – interview).

Although the artisanal production system might seem benevolent and there was a give-and-take dynamic, it also enabled producers to shorten the production period by exacting longer working hours from their workers. For example, it appeared that piece-rate workers of CBE partners were enjoined to work faster and longer to finish an order in the shortest time to minimise the cost of production and meet the buyer's target price:

Sometimes they ask us to re-compute our cost of goods to get the correct price. But we find it very difficult because, for example, you couldn't quote PhP20 (AUD50 centavos) just because it is the buyer's target price ... we have to find ways to reach that target price ... we have to adjust constantly ... it's very hard for us when there's a target price because it's really low (Levity family enterprise – group interview).

So we try to adjust in terms of the materials and payment of workers ... I mean there's no adjustment in the pay of workers but what we ask is for them to work faster (*pabilisan ang gawâ*) but at the same time ensuring the quality of their work ... we go after the due date (Renaissance family enterprise – group interview).

One of the defunct family enterprises also talked of the *pabilisan* system in the capiz handicraft subsector. He said that sub-contractors employed piece-rate workers who were willing to work faster and longer to give them a competitive edge:

In 1988 the price of capiz products was good. My buyers used to follow the price I quoted but when other suppliers emerged the price plummeted. It was ironic because the costs of chemicals and other raw materials were increasing but the price of capiz was falling. For example, back then I was selling capiz wastebaskets at PhP140 (AUD3) but now, capiz suppliers sell them at PhP95 (AUD2). They compete on speed of delivery. They're able to do it because they employ more workers who are willing to work longer to produce the quantity ordered in the shortest time possible. But they also pay low (Defunct family enterprise – interview).

At the same time, market pressure seemed to be forcing SAFRUDI to discount in-house labour, too, to provide work to piece-rate workers. Marcelo said that in-house production sometimes felt like sub-contracting to compete with other CBE partners to 'win' a production order:

There are buyers who quote a certain price so we advise the workers, the buyer's price is only this much and your rate will only be this much ... Do you agree or not? If they don't agree, it will be sub-contracted. It's the marketing that negotiates the price so it's really up

to the buyer. Marketing will just inform us: ‘There’s an order but the price is this, can you do it production?’ It’s like we’re a sub-contractor, too. So, if we’re more expensive, they’ll give it to re-sale (i.e., capiz producer-partners) (Marcelo – interview).

Even if labour discounting were done with workers’ consent, as the two examples above showed, it was still inherently unjust and encouraged self-exploitation. Thus, SAFRUDI, CBE partners and FTO buyers seemed to reinforce the economic injustice against marginalised workers through targeted price-setting, which basically meant discounting labour. This is discussed further in *Piece-rate system and self-exploitation* in the section below.

Social dimension

The analysis focused on how SAFRUDI pursued its vision of fairness and ‘greater equity in international trade’ and long-term goal of sustainable development; organisational constitution of SAFRUDI in terms of who were the members of the board of trustees/directors, and how partner producers were empowered by the trading relationship; organisational or legal form of SAFRUDI that allowed for limited profit distribution⁶. In terms of the specific research questions, this dimension addressed the number of people and CBEs that benefited from SAFRUDI’s activities, the benefits they enjoyed, how SAFRUDI’s experiences as a SE FTO translated into its VMG and its contributions to deepening economic democracy and promoting sustainable social development. As shown in Table 7.1, the indicators of this dimension were:

4. An explicit aim to benefit the community – piece-rate workers, CBE partners and GBPs – while promoting a sense of responsibility.
5. Fair trade principles advancing social justice, including promoting fair trade.
6. Gender equality.
7. Payment of fair price and fair wages.
8. Safe and healthy working conditions.
9. Creating opportunities for disadvantaged producers and capacity building of producers and workers.

The main finding in this dimension was, *due to market pressures, adherence to the VMG of total human development and fair trade principles was problematic and challenging for SAFRUDI and CBE partners*. This was evidenced by data showing that:

⁶ The discussion of the organisational constitution of SAFRUDI in terms of who were the members of the board of trustees/director and the organisational or legal form of SAFRUDI that allowed for limited profit distribution was incorporated in the *Corporate structure* section under *Participatory governance dimension*.

1. Benefits and disadvantages were differentially distributed among different types of communities: SAFRUDI piece-rate workers and their families were the most negatively affected, while family enterprises appeared to benefit the most.
2. Rather than changing the unequal trade relations between developed and less developed countries, SAFRUDI and FTO buyers seemed to have adopted capitalist practices resulting in market isomorphism. In turn, this might have reinforced factors, including the personal aspirations and dreams of CBE partners that militated against the aim of developing viable family enterprises and producers.

The evidences supporting the finding are now discussed under each of the indicators.

4. An explicit aim to benefit the community, while promoting a sense of responsibility.

From SAFRUDI's perspective, its social mission transcended the 10 fair trade principles. As gleaned from its identity statement (Figure 1.2, p. 17) and the research participants' understanding of it, SAFRUDI's social mission was 'total human development' for marginalised groups, such as workers, communities and producers. This meant transforming all aspects of life that contributed to human impoverishment:

SAFRUDI is more than fair trade ... Sister's [Sr. Juliaan] worldview was total human development ... it's not just income but total human development for the people: the workers, the producers, the communities assisted (Ester – interview).

She [Sr. Juliaan] wanted people not to be dependent on SAFRUDI or what it could provide ... she wanted them to enrich their lives not only socially, economically but spiritually as well ... that's why we have two programs – the social enterprise and integrated social development (Marketing – group interview).

However, it was not clear to the SAFRUDI research participants how well they were achieving their social mission or the fair trade principles:

Adherence to fair trade is a long discussion (Marcelo – interview).

It is difficult to live out because '*patas na kalakalan*' (fair trade) is very literal (Vicky – interview).

If you assess it, where are we really? What is really the impact of SAFRUDI to GBPs, producers and workers? (Ester – interview)

1. Benefits and disadvantages of working in SAFRUDI

All of the interviewed piece-rate workers (n=10) and regular workers (n=23) said they were lucky to be employed in SAFRUDI. As already stated, although their status was not the same as regular workers, PRWs enjoyed the same legally mandated wages and benefits enjoyed by the former. These benefits included enrolment in the state-owned Social Security System (SSS), PAG-IBIG (Home Development Mutual Fund), medical insurance (PhilHealth) and retirement pay. However, piece-rate workers valued not only the economic but also the intangible benefits of working for SAFRUDI. As one respondent noted:

I consider myself lucky to be in SAFRUDI. Compared with my friends and former classmates, I'm paid the minimum wage and enjoy benefits like vacation leave, sick leave, SSS, PhilHealth and PAG-IBIG ... then we have seminars, outings and retreat. They get envious when I tell them about the outings and retreats because I'm able to go to different places (Laura – interview).

Because of these, many of them had stayed on in the organisation and those who had left to work overseas might not have done so if there were more regular and continuous work. The piece-rate participants attributed their personal growth, increased knowledge and skills to the training and social and spiritual activities that the organisation provided. As one respondent said:

I never went looking for another job after I was employed in 2000 because I like the management here. Before, I lacked knowledge about so many things. I didn't even know what a retreat was. For me it allows you to realize the mistakes that you have made, especially when you lacked faith. It is where you learn how to treat your fellow human beings with respect. The retreats have made my faith stronger. Unlike before, I would only go to church when I felt like it. Now, my knowledge of God and religion has grown. Also, my interaction with others has improved (Rina – group interview).

And another:

We can talk about our life experiences, as well as problems. The retreat is an opportunity for relaxation because it lasts for three days. We get to know each other better ... we share family problems and our colleagues give support and advice. It also allows us to bond with

the people coming from the provinces. We learn what they are doing in *Gabay*, what they are for and their history (Delia - group interview).

Regular employees also found professional and personal fulfilment in SAFRUDI. Some in the supervisory and management position gave up higher pay and perks in the private sector in exchange for meaningful work. They liked the informality and having a voice in the organisation. As Anthony and Jessie shared:

Workers here can wear casual clothing to work ... we wear whatever is comfortable ... In my previous company, everyone had to be in formal attire. The general manager would call your attention if your neck tie was not properly fixed. You have a voice here, too. You can air your opinion. Also, you can really see the output of your hard work. I know that I am able to make a difference ... In my previous work, I felt like I was just a dot because the company was very large. When I left, it wasn't really affected ... unlike here, even though SAFRUDI has been around for a long time, I know I can still contribute a lot to improve the organisation and make it grow (Anthony – interview).

I worked in different companies but I never experienced the benefits and activities we have here ... In addition, SAFRUDI assists other people outside the organisation ... we have an immersion program in *Gabay* communities which allows us to experience the life of farmers and *Gabay* beneficiaries ... we also visit the producers ... working here has been a rewarding experience. You won't find any other company that has all these (Jessie – interview).

The personal fulfilment reported by PRWs and regular employees echo other studies (Amin, 2009a; Borzaga & Depedri, 2009) showing workers and volunteers giving up higher compensation and benefits in the private sector to work for SEOs. However, despite the positive appraisals, it was also undeniable that the seasonal production cycle and the sub-contracting out of production processes brought feelings of alienation and insecurity among in-house production workers. Of the total production orders received in 2010, for example, only 45% of the 250 POs were produced in-house (see Table 7.5). In contrast, the contribution of in-house production in 2005 was 57% of the 319 purchase orders received.

Table 7.5: Distribution of purchase orders, by type of partner

Fiscal Year	Number of Purchase Orders	In-house Production	CBE Partners	Number of Family Enterprises	Number of Producers' Associations	Total CBE partners
2010	250	45%	55%	na	na	24
2009	na	33%	67%	na	na	20
2008	250	na	na	39	13	52
2007	300	na	na	20	50	70
2006	319	na	na	25	18	43
2005	312 shipped out of 319 placed	57%	43%	26	14	40

Source of data: SAFRUDI Annual Reports from FY 2004-05 to FY2009-2010

Because of SAFRUDI's seasonal market, purchase orders were timed to meet buyers' delivery schedule to minimise warehousing cost. Since all orders had to be with the FTO buyers by August so they were ready to sell by September or October, orders would arrive simultaneously. Due to the reduced number of piece-rate workers, SAFRUDI had resorted to sub-contracting in the mid-2000s to meet tight delivery deadlines. As Anthony explained:

Looking back, I think the production manager's decision was in line with the needs of the buyers. That time, the shipments followed one after the other. So, even if the workers worked overtime and he divided the purchase orders to different workers, they would still be unable to meet the deadline ... so he sub-contracted to outside producers. If not, the items would not have been delivered on time. The only downside was that the in-house workers' opportunity to earn more was lost. On the other hand, you also have to balance everything in times like that. You have to put the buyers' needs first and the company's reputation of delivering on time. If delivery was late, a buyer could simply cancel its order and everyone would suffer (Anthony – interview).

Since then, however, sub-contracting had become the norm. Some piece-rate workers claimed that it occurred without their knowledge and the reasons given them, such as to meet delivery schedules were unsatisfactory. They believed that sub-contracting was a means to minimise labour costs. For example:

Beginning in 2005, work started to decline ... and then in 2006 we noticed that some of our work was being done outside ... we had orders but production was being sub-

contracted. So we began to question why other people had work, whereas we didn't. There were many reasons given why they were sub-contracting our work, such as to eliminate delays and meet our due dates, but it was basically to reduce costs ... although the costs of raw materials have gone up, labour cost outside is cheaper than in-house (Rosemarie – group interview).

Since sub-contracting out had reduced in-house production orders, management did not empathise with them. As two respondents illustrated:

They say we're a fair trade organisation but it doesn't seem fair to us when they sub-contract the order. They should consider the interest of the in-house workers first before other people (Dora – group interview).

I think SAFRUDI is no longer able to help the poor that much. They help other people but they don't seem to realize that the workers here also need its help. I just hope that they will understand our situation as piece-rate workers, especially when we don't have work. I hope there are other ways that we can earn here. If I were educated I could have gone abroad a long time ago like other workers (Delfin – interview).

They also hankered after the informal management style and respect accorded to them in the past, where managers had come up to their workshops to ask how things were going. But, over the years this had changed and the relationship had become distant. They said that they missed the easy social interaction between workers and management and the mutual trust it had fostered:

We don't know how it happened but it used to be that management was more respectful and caring of workers ... we missed Sr. Juliaan's style and other managers who would visit us upstairs, asked us how we were doing, we missed that ... managers should relate to their workers sensitively and not just call a meeting when there is a target to be met (Dora – group interview).

They said that we have attitude problems ... that we don't report on time. But then we work fast even if we come a little bit later. Our work is supposed to start at 7:30 in the morning but sometimes we come at nine ... In my case I sometimes report at 10 a.m. because I'm demoralised. I missed the old days when we had plenty of work and really inspired to finish our job on time. But now, it seems that we have more months without work than with work ... so it's very demoralising ... Others say that we should take advantage of the months that we have work to do ... however, it also happens that when I

come early to work, things go wrong ... like delivery of raw materials is delayed because they sub-contracted the cutting of capiz ... or they would erase the POs written on the white board ... or the sample given to us is wrong ... so I end up waiting ... my time is wasted (Rosemarie – group interview).

2. Benefits and disadvantages of being an active CBE partner

Notwithstanding the discontinuous nature of production and seasonality of purchase orders, active CBE partners (n=7) interviewed, perceived SAFRUDI as a sort of ‘saviour’ when exporters from the private sector could no longer compete in the international market:

We have been in business even before we became a supplier to SAFRUDI. We supplied to various exporters. We met SAFRUDI in the 1980s. However, our production for SAFRUDI became irregular when it started its own capiz line similar to ours ... we were hurt and disappointed ... Sometimes it took five years before we got another order from SAFRUDI but beginning in 2000, it became regular again (Levity family enterprise – group interview)

When our business was going down in 1993, we offered our items to SAFRUDI ... we had only two workers left back then ... Financially it was difficult because the samples were free of charge and we had to make two samples for each item. At first SAFRUDI would give us purchase orders twice a year ... then it became more often. We’re very thankful for SAFRUDI because our business has prospered again (Renaissance family enterprise – group interview).

Among the active producers, however, the capiz handicraft makers benefited the most from purchase orders sub-contracted by SAFRUDI. As a leading capiz producer noted:

SAFRUDI had been very good to us ... we were able to buy a vehicle, systematised our policies, learned how to compute our costs ... I have nothing more to ask except continuous production because there are people who depend on us ... we’re not the only ones who need SAFRUDI. There are others who need them more like the people from the province who were unable to go to school ... they’re the ones we employ (Renaissance family enterprise – group interview).

The financial rewards that top producers generated were not lost on SAFRUDI rank-and-file workers, who were responsible for the labelling and packaging of handicrafts. As examples:

Sometimes the workers in the Materials department tell us jokingly: ‘Oi Mrs. R paid for our salaries again’ (laughs). It’s because we’re the only ones that get a lot of orders ... also, the value of our order is higher than other producers who manufacture bigger-sized items. Sometimes the office personnel also comment when they see the amount of our collection (Renaissance family enterprise – group interview).

They think that we are already rich but they did not see how we got there ... to reach that amount. They did not know that we just roll over our capital ... If we were able to buy a car that’s because we saved from one to two years to buy it. But it’s true, everything that we have now comes from capiz ... of course we must have something to enjoy, too (Levity family enterprise – group interview).

Although family enterprises enjoyed higher economic benefits relative to SAFRUDI’s in-house production workers and members of the active GBP association, the income they generated appeared modest and comparable to salaries received by middle managers in the private sector, which ranged from PhP25,000 (AUD556) to PhP30,000 (AUD667) monthly (Salary Explorer website). Their income was a source of pride and happiness that allowed them to enjoy certain ‘luxuries’ and their children to have better life chances (see *Lack of second-generation producers* section, p. 280):

Actually, even if I net something like PhP300,000 (AUD6,667) a year, I can’t hold it in the palm of my hands because we have daily needs. But it’s okay (Forest Works family enterprise – interview).

I can afford the monthly medication for my diabetes ... I also tell people that the second floor of my house was courtesy of my previous buyer ... the third floor courtesy of SAFRUDI (laughs) (Renaissance family enterprise – group interview).

Furthermore, they benefited from free BDS, such as the annual producers’ assembly (APA) and product research and development, which they had not experienced before:

We get the opportunity to experience this kind of life, which is rare for an exporter. Other exporters wouldn’t care ... if you lose, you lose ... sometimes they won’t even pay you. We also like that there’s open forum [in the annual producers’ assembly] because we get to air our grievances ... and we enjoy going to different conference venues for free (Levity family enterprise – group interview).

The seminars are like rest and recreation, too ... the three-day assembly gives us a respite from all the troubles back home (laughs) ... Yes, we experience this only in SAFRUDI (Renaissance family enterprise – group interview).

Because of their favourable business relationship, leading capiz producers preferred to focus on SAFRUDI and were no longer interested in exploring other markets:

We are focusing on SAFRUDI because of its policy. In business, you cannot help but meet unscrupulous business owners so we prefer to do business with SAFRUDI (Levity family enterprise – group interview).

Non-capiz family enterprises, such as the wind chime and *moras* producers were keener to explore other markets. However, stiff competition remained a limiting factor. Thus, producing low-volume orders for SAFRUDI buyers was still viewed as better than not getting any orders at all:

We also supply to other buyers but business is really slow ... Sometimes we refuse their orders because the price is very cheap ... it's not viable to produce. We've received a few POs from SAFRUDI buyers but the volume is low ... still, it's good to have something to do ... like pastime (*libangan*) (laughs). For example, this PO is for 20 pieces; the other one is for 500 sets ... the two POs are worth Php50,000 (AUD1,100) ... it's okay, better than nothing to do for the few remaining workers we employ (Woodcrafts family enterprise – interview).

Given that production was dependent on actual demand, there could be months of waiting for purchase orders to arrive:

Sometimes we get a PO, sometimes not ... for example, we have not received any order yet for May ... perhaps we would get the next order in August (Levity family enterprise – group interview)

On our part we received an order for a large quantity but we do not have a PO yet because the negotiation with the buyer over items to be made by the in-house is not finished ... So, my PO is also affected ... right now, we are on stand-by. Our production for the year is actually almost over (Renaissance family enterprise – group interview).

Because the waiting period could take some months, the surplus generated during the production season would be consumed. This would later surface as a working capital problem when the

production season commenced. This is discussed later in the *Weak management and recurring issues* section.

3. Benefits and disadvantages of being a GBP (Gabay sa Bagong Pag-Asa) association

GBPs organised by SAFRUDI benefited from the social development services provided by the organisation through its ISDP program. These included: community organising and capacity building, provision of health and nutrition services, socioeconomic projects, such as group lending, drug-store retailing, livestock-raising, handicraft production and sustainable agriculture. The latter served as the training ground for acquiring business skills and values.

The main disadvantage of being a GBP pertained to its inability to become a viable handicraft producers' association. Because farmers did not view handicraft as a major economic activity, very few GBPs became sustainable from handicraft production. For example, out of the four GBPs supplying the organisation in 2001, only one had survived in 2010. While GBPs appeared to be more effective in running livelihood projects that benefited their members, these were not viewed positively by SAFRUDI because the number benefiting was small unlike the hundreds of community members that might benefit from a handicraft business. The average membership in GBP livelihood projects was 20. In 2010, there were 11 GBP associations organised. The case of the GBPs is discussed further in *Vignette 4: GBPs – Social entrepreneurship from the ground up* in Chapter 8.

4. Coping mechanisms of workers, CBEs and management

Workers

To alleviate their situation and support their families, some PRWs and rank-and-file workers responded by biking to work, opening a hole-in-the-wall *sari-sari* (mom-and-pop) store and retailing mobile phone pre-paid recharge. Some with young children sent their families to their home province, where the cost of living was less expensive than the National Capital Region. Some also shared small apartments near SAFRUDI to save on cost of living. As two respondents explained:

I send money to my mother who takes care of my three-year old daughter in the province. When I have extra money, I'm able to send PhP1,500 (AUD33). If I don't, I send PhP1,000 (AUD22). I don't send money every month though ... I just text my mother to let her know (Delfin – interview).

I see my family every weekend only because going home every day is expensive. I share a small apartment with 6 other co-workers that's why I was able to save enough capital for

my wife to open a small *sari-sari* store in front of our house ... it provides us extra income (Jonas – interview).

Despite their best efforts to alleviate their situation, almost all (n=24) of the research participants who received the daily minimum wage (PRWs and regular rank-and-file workers) were found to be mired in personal debt. Being enrolled in the SSS and PAG-IBIG Fund allowed them to borrow salary loans from the two state-owned corporations. In addition, those who were members of the Keep-Sake Employees' Savings and Loans Association (KS) could borrow from the KS up to twice the amount of their contributions. Thus sometimes they ended up with multiple loans:

Because our salary for the year is not enough, we end up having debts ... We have loans from KS, from SSS and PAG-IBIG ... we borrow from whoever is willing to lend us (Dora – group interview).

For piece-rate workers, this could mean zero salary at payday because monthly loan payments, also called amortisation in the Philippines, were automatically deducted. Although the situation seemed absurd, piece-rate workers managed to laugh at this, as these examples showed:

So sometimes when payday comes, nothing is left of our salary (laughs) ... zero balance, because of the loans ... If you worked only for 10 days, you just get your pay slip (Dora – group interview).

Yes (laughs), sometimes, nothing is really left of our salary. But when we have work, we are able to save some money (Rina – group interview).

However, if these loans were not enough, other workers resorted to borrowing from informal lenders by pawning their ATM (automated teller machine) cards. Although some regular workers frowned on the practice, pawning ATM cards appeared to be a desperate measure because the interest paid was higher than regular loans:

Using ATM as collateral is already a long-standing practice ... interest paid is PhP50 (AUD1.10) per PhP500 (AUD11). The lender keeps the ATM card and accompanies the borrower to the bank during payday to collect payment (Dora – group interview).

Furthermore, the workers rolled over their loans, borrowing each time they had amortised six months of their previous loans from SSS or PAG-IBIG. As one respondent illustrated:

If you have been paying for six months, you can already apply for another loan but your remaining balance will be subtracted from it ... so the amount you receive is small (Rina – group interview).

CBE partners

CBE partners tried to survive by selling in the domestic market through local trade fairs or selling seconds, i.e., products that did not meet SAFRUDI's quality standards. One family enterprise was found to engage in non-core businesses to support some of their workers:

Sometimes our workers don't want to go home even when there is no work available ... so we engage in all kinds of businesses ... selling water, putting up a *sari-sari* (mom-and-pop) store, barbeque in front of the house ... just so we all could survive for the year (Levity family enterprise).

Family enterprises engaged in the same business supported each other, too, by teaming up to defray costs when joining local trade shows. For example:

We join trade fairs during *fiestas* (festival) in different regions during the lean months ... My mother-in-law is the one who's always joining trade fairs so we decided to join her too. We sell only simple products that are inexpensive, from PhP35 (less than AUD1) to PhP300 (AUD6.70). Because there's no rent, we only spend for transportation. The whole family goes. We sleep in the van ... Our sales range from PhP15,000 (AUD333) to PhP20,000 (AUD444). My mother-in-law and I divide the sales between us, while helpers – also relatives – get a certain percentage ... At least we have an income (Kalinga family enterprise – interview).

CBE partners with investments in real estate and agricultural lands lived off their income during the lean months (Interview with three family enterprises).

SAFRUDI management

SAFRUDI's management was certainly aware of the situation facing piece-rate workers and CBE partners. For PRWs, it had devised several ways to augment their income during lean months. But because of the pressure and uncertainty created by its declining market, work relations between the 'office' – i.e., management and employees in the administrative building on the other side of the street – and workers – i.e., PRWs and some sympathetic regular rank-and-file workers in the manufacturing and warehouse building on the other – had become tense. For example, in October 2010, SAFRUDI received a large order for capiz candle holders – 3,600 pieces – from a North

American FTO. The order was considered rare and management decided to produce it in-house after getting the commitment of PRWs to finish the work before the Christmas break. But management also decided, without worker consultation, to outsource the cutting of capiz shells using die cut technology in the belief that it would be more efficient and cheaper. It did not foresee that the technology might not be suited to the quality standards that SAFRUDI required. Because of the pressure applied to cut the petals a big number was rejected and replacing them took two weeks. To meet its delivery date, the in-house production managers planned for overtime work and the moonlighting of some regular workers, who used to be piece-rate workers. Fortunately, the delay in the buyer's decision regarding the final colour of the last set of lotus candle holders offset the two-week delay. As a result, the piece-rate workers did not have to work overtime or lose some of their income to regular workers. However, the decision to outsource and the resulting delay in the cutting of shells exacerbated further worker disenchantment and terse comments were openly and secretly heard during the field work.

To ensure that there was work for PRWs and producers, management had resorted to, first, receiving low-volume order for different product items:

Other producers do not accept orders below a certain quantity. Some don't agree to orders of less than 100 or 500. We also have a minimum for volume order with a corresponding lower price ... but because our buyers are fair trade members, we still accept their orders even if it is as low as five pieces for an item and 10 for another item ... Since they order several items, around eight to 10 [different] items, the total number of pieces ordered reaches 100 ... However, we tell them the downside, which is more expensive freight cost. So, we suggest: 'Why not maximize the freight cost and order additional items?' (Cesar – interview)

Secondly, management agreed to a break-even price with FTO buyers, which meant keeping the social premium added to the price of the product but excluding other mark-ups, such as fixed costs and other expenses incurred during the manufacturing process. For example:

When we see that we are not going to gain from the price a buyer wants, we tell the buyer that we are already below the break-even point, and that we should level off at the break-even price ... We relay the information to our producers ... when they say that they cannot reduce the price anymore, we don't force ourselves to bring it down ... We have to make sure that we can still earn to sustain our programs (Cesar – interview).

Thirdly, they assigned piece-rate workers to temporary work, such as general office cleaning and inventory during the months of November and December; and to the materials department to do labelling and packaging whenever extra workers were needed to meet shipping dates and to do quality control for volume orders. For example:

When we don't have work upstairs, they ask us to go down to assist in the packing ... Like right now, we are just waiting for our work to begin. Once the capiz shells are delivered, we'll go back upstairs (Marilyn – group interview).

Piece-rate workers welcomed every opportunity to earn outside the regular production cycle, since they did not have to chase a minimum quota to earn the daily minimum wage:

I'm grateful to my supervisor whenever I get a text to report to the Materials department because the pay is daily unlike upstairs where we are paid piece-rate. I have been working here for three days so my income is already assured (Emilia – group interview).

Fourthly, SAFRUDI provided livelihood seminars, such as baking, food catering and food processing to piece-rate workers so that they could engage in income-generating activities during lean months. However, none of the piece-rate workers interviewed had applied any of their training due to their lack of capital and time to practise at home. For example, when asked what they had done to apply the knowledge learned on food processing, two of the PRWs said:

Nothing (laughs) ... I don't have the time for it (Rina – group interview).

I do not have the time to practise because I have a two-year-old son ... Whenever I am here, I leave him to my mother ... so I spend my free time with my son (Emilia – group interview).

5. Advancing fair trade principles.

As a member of the World Fair Trade Organisation and its Asian and country affiliates, SAFRUDI collaborated with other FTOs in promoting fair trade in the Philippines. The annual World Fair Trade Day held during the month of May was celebrated through street parades in major parts of the National Capital Region, fair trade symposia in schools and holding of grand sales. SAFRUDI also orientated new producers about the vision and social mission of the organisation and this is repeated during the annual producers' assembly. However, acceptance and assimilation by different stakeholders seemed incongruent. As already demonstrated, among SAFRUDI workers and staff, 'fair trade is about having work and being paid fair wages', while among producers, 'fair

trade is about fair price and continuous production'. Thus, of the 10 fair trade principles, *payment of fair price and fair wages* had the most emotional connection and one that raised a lot of questions:

There are 10 fair trade standards. They can't all be achieved by one department. It's a collective action. I choose certain aspects of the standards to follow. For independent producers, we're only up to fair trade compensation and working conditions. For in-house production, we ensure no sexual harassment cases among current workers (Marcelo – interview).

Whenever I hear workers say: 'I thought you're a fair trade organisation', it tugs at the heart. They're the most affected whenever there's no order. Their life is on the balance because they have no salary. That's what differentiates them from us because with or without a PO, we still receive our salary. On the other hand, their lives depend on the order ... That's why fair trade is very difficult in this type of situation. *Are we really fair?* (Elena – interview)

A regular staff member, who joined the immersion program in GBP communities, also questioned the organisation's logic of helping GBPs by juxtaposing their social and economic situation against the PRWs' situation. It seemed unjust to him that piece-rate workers, who sustained SAFRUDI's operations, were being marginalised and not enough attention was given to improve their welfare. He rued:

Sometimes, I really don't get how they work. They say that SAFRUDI is a non-profit organisation but sometimes the action or decision of management is against what it says because if you are, it means you're not after the income. You're after your goal of providing livelihood to people ... In the rural areas, the GBP members at least have their own houses although the materials used are light ... I just hope that the officers also have an immersion on the lifestyle of the piece-rate workers. From what I've seen most of them are renting their dwellings; some live together because they are financially struggling ... They should give the internal personnel the same attention that they give the social development. I think the workers deserve that attention, too, because almost 50% of what SAFRUDI earns come from the sweat of the workers though they are compensated ... This organization is about giving support to the unfortunate ones, so, they should also give support to the workers (Anthony – interview).

While producers understood the principles of fair trade, they also recognised that practising them was difficult. For example:

I think the objectives of fair trade are admirable, like fair wages and fair price, protecting the environment. I practise safe chemical waste disposal in my production site in the province ... but as a producer dependent on exporters for my business, I cannot afford to pay minimum daily wage and benefits ... so workers' pay is based on piece-rate from the gathering of wood in the forest floor to the painting of wood ... perhaps if I were a manufacturer and exporter at the same time, I could (Forest Works family enterprise – interview).

Additionally, after many years (even decades) of partnership and promotion of fair trade, only two of the top 10 CBE partners had been deemed ready for inclusion in the piloting of the WFTO's SFTMS (Sustainable Fair Trade Management System) certification (SAFRUDI, 2010b). As discussed in Chapter 6, the SFTMS was WFTO's response to Southern producers' need for an affordable certification process that would allow them to use the fair trade mark. Adherence to fair trade principles is discussed again in the *Participatory governance dimension*.

6. Promoting gender equity.

As noted in Chapter 5, gender equity from the fair trade perspective had been narrowly defined to 'equal pay for equal work of equal value'. With its adherence to the mandated minimum daily wage and provision of benefits, SAFRUDI's male and female workers, piece-rate or otherwise, received equal remuneration. Following the principle of gender equality, SAFRUDI had begun to train female piece-rate workers to become welders, i.e., soldering brass wires into capiz shells, which was mainly done by male workers. Given that the number of piece-rate workers had diminished and sub-contracting of other processes to new technology could be done, binding and welding were the only remaining processes which SAFRUDI was not willing to outsource otherwise, in-house production would cease. However, there was resistance among female workers to become welders that was being attributed by management to gender stereotyping:

We are trying to be gender sensitive by giving the same opportunities to male and female workers, but female workers don't want to do welding (Vicky – interview).

However, female piece-rate workers might have a valid reason for their refusal that had nothing to do with gender. The soldering acid used to glue brass wires into the capiz shell burnt the skin:

Most of us can do different tasks, such as washing, binding and lay outing, but we don't want to do welding because the acid burns the skin. We can't wear gloves because it's clumsy (Dora – group interview).

Piece-rate workers alluded to sexual harassment cases in the past when male and female workers used to share the same workshop and the number of workers was still high. But, since the separation of workshops had been instituted and the number of workers had dwindled, gender dynamics appeared to have levelled out. As Laura recalled:

In 2005 welders (males) and binders (females) worked together in one floor ... we had a number of sexual harassment cases ... female workers with knives pursued male workers because of a dirty joke ... or splashed them with water ... we were always called in the office ... the guilty parties were suspended for a number of days ... now we don't have that kind of issue because the workshops have been separated and the number of PRWs has also gone down ... compared with the past, there's less friction now (Laura – group interview).

Based on SAFRUDI documents, it seemed that gender sensitivity was taken seriously by FTOs and funders in the 1990s and early 2000s, when gender and development was a major development issue. Piece-rate workers and participants from producers' associations recalled undergoing a series of gender sensitivity seminars. However, their understanding of gender equality was limited to 'harmonious relationships between men and women' and sharing of chores. For example:

What we learned about gender and development is about having harmonious relationships between men and women, such as whenever one is mad, say the wife is mad; the husband should be patient so that the fight would not get bigger anymore. The husband should also help out in household chores; however, the wife is usually the one who does more. My husband helped out in household chores when he was still here in Manila. He cooked, did the laundry, and looked after the children ... but he works overseas now (Rina – group interview).

Gender equity from the perspective of GBP home-based worker-producers was about generating income for the family, while combining household chores and productive work. They were not so much concerned about multiple burdens and longer working hours but the income they generated in between household chores:

We usually end at 10 in the evening. But it's not continuous work. We do household chores in between weaving (laughs). We cook, we wash dishes, clean the house, look after

the children (laughs). If we concentrated on weaving it would take less than a day to finish a stand. But since we have other chores, we set aside time for weaving in the evening, after 7 p.m. till 10. With our income, we are able help our husbands (Dina and Celia – group interview).

Among home-based worker-producers of the Buri Handicrafts Producers' Co-operative, it seemed that the sharing of household chores and gender role reversal had become automatic during peak production. However, this did not mean that women worked less. On the contrary, a lesser reproductive burden translated into longer productive work time, as this example showed:

We usually start working at 8 in the morning till 11 at night. Our respective husbands do the cooking and washing of dishes. They also help in making twines for the *buri* (corypha utan) pet toys. After lunch, we just have a short rest and then continue working till night. Our husbands prepare dinner while the children wash the dishes. We continue working while watching the evening news. When it's the husbands turn to work [in the farm], we do the household chores (Minda and Haydee – group interview).

7. Payment of a fair price and fair wages.

Because of the piece-rate system, PRWs resorted to working fast to earn more. Hence, it seemed that competition among workers and self-exploitation had been tacitly encouraged:

Before, there was 'crab mentality'⁷, such as PRW1 comparing PRW2 ... If PRW1 has lower pay than PRW2, it's because PRW1 is slower. If I were the boss, I would not give PRW1 more assignment; I'd give it to PRW2 who's working efficiently. I'm not the type who would give slower workers more work to increase their income. Instead, I'd encourage him or her to work faster so she'd earn more because you're piece-rate. Sometimes, it gets questioned among in-house workers about assignment of work. In the end, the skills of people are different. If you come early and work fast, you earn more. But if you come late and work slow as well, then you can't expect more work (Marcelo – interview).

Slower piece-rate workers, however, believed that they should also be given a chance to make a living:

⁷ A Filipino saying that explains the tendency of other people to pull down out of envy individuals who excel.

Management doesn't notice but those who work fast are the ones getting the biggest allocation ... it's because the system is piece-rate ... you really need to work fast but somehow they seem to forget that other people need to earn, too, even if they're slow ... they shouldn't prioritise only those who are quick ... they have to treat workers equally (Benjamin – interview).

As another example shows, one of the binders, i.e., those who edged brass wires on capiz shells, exceeded the minimum quota of 1,000 pieces for edging lotus petals by working from 6 a.m. to 9 p.m.⁸ While she was already on her third set of capiz shells (one set has 500 pieces) at 4:30 p.m., another binder who came later at 10:30 a.m. was just starting on her second set. Another piece-rate worker noted the irony of earning his highest pay due to less competition:

In the 10 years that I have been working in SAFRUDI, I earned my biggest fortnight pay this year because there are very few welders left. Some of the former welders are working abroad, others returned to their home province, while the other remaining welders went on Christmas break ... so I earned my highest salary of PhP8,000 (AUD178) this year ... still, sometimes nothing is left of my salary because [I don't have work] and have debts to pay ... (Delfin – interview).

8. Safe and healthy working conditions.

Because of the need to work faster and earn more, piece-rate workers seemed to sacrifice their health and safety. Although management provided safety gadgets to ensure compliance with this fair trade principle, the very nature of the piece-rate system seemed to be a contradiction. Furthermore, since sample makers, who were the basis for the time and motion study, did not use safety gadgets, it seemed possible that the daily minimum quota was overestimated. Thus, it did not make sense to expect piece-rate workers to use safety gadgets and meet the minimum quota needed to earn the daily minimum wage:

'It really isn't comfortable. Instead of making 100 pieces, I would only finish 80 pieces because I would remove my gadget every now and then. It was itchy and caused me to sweat a lot' (Obet – interview).

⁸ SAFRUDI employees have a 15-minute break in the morning, one hour lunch break and 15-minute break in the afternoon. However, piece-rate workers sometimes took longer lunch breaks by sleeping in their work area.

And because they could not be ‘forced by management’, non-compliance by workers had been accepted at face value but the underlying reason seemed to have been taken-for-granted, even by FTO buyers themselves:

Mask is critical for painting but for other tasks it’s not that critical. One discussion was to ask PRWs to sign a waiver that we’re not responsible for incidents regarding occupational health and safety issues ... We discuss it openly with fair trade buyers when they visit us or with fair trade accrediting bodies. We tell them that the workers are not comfortable with masks and goggles and we have issued these safety gadgets but we can’t force the workers to use them (Ester – interview).

We use gloves and face masks only when we are washing because we mix acid in the water to remove the dirt from the capiz shells ... also, when there is painting because the smell of the paint wafts into our workshop ... but we don’t like using them, especially the goggles and ear muffs ... the goggles gets moist and gives us a headache (Rina – group interview).

In the binding section, the noise was found to be deafening when four binders pounded simultaneously on their iron boards. But, the workers seemed oblivious to it even with loud music playing on the radio. Although the radio had been disallowed in the past, it seemed that noise pollution was no longer a health or environmental issue:

Radio wasn’t allowed when I first worked here. Whenever my supervisor saw me listening to the radio, she would tell me that it wasn’t allowed because it was already too noisy upstairs when the workers worked together. I don’t know why they allowed it now ... my supervisor in the past was very strict (Obet – interview).

However, it seemed listening to the radio was a coping mechanism for piece-rate workers’ feelings of alienation. As one piece-rate worker justified it:

‘Music makes our work less boring’ (Rosemarie – group interview).

In the welding section, welders were found to use their bare hands and fingernails to hold brass wires together since the pieces to solder were small. They said that it could not be avoided because using tools, even long-nose pliers was useless. With tools, they could not feel the tiny wires twisting, hence, they grew their fingernails long so that their skin would not be burnt when pinning wires to solder on capiz shells (see Figure 7.1 on p. 267). Because management was not negligent in issuing safety gadgets, the workers no longer reported minor incidents like burns and treated them

by simply washing their hands. Additionally, welders did not don other protective gear issued to them because they were uncomfortable to use and slowed down their pace of work:

I used to wear a mask back then, but I'm not comfortable with it. We just don't know how inhaling acid will affect us. So far, we haven't noticed any effects in our body. But they say that the effects will come out at a later time in our lives. We have a yearly check-up, including x-ray, blood test, urine test and eyesight test. Everything is still normal even though I don't wear my mask (Delfin – group interview).

We used to wear goggles when soldering but the smoke blurred our vision. Because we couldn't see clearly, we worked relatively slowly. Before, we were given a written document ... the management told us that we were responsible for our own action if something happened to us ... but we didn't sign it. We only wear our protective gears when there are visitors (Delfin, Sam and Benjamin – group interview).

Thus, it appeared that wearing safety gear had become a token gesture adhered to only when there were fair trade visitors and fair trade monitors. Figure 7.1 (p. 267) shows the production process for making capiz items.

9. Creating opportunities ... and capacity building of producers and their workers.

Before withdrawing from the Philippines, funders and supporters provided financial and technical assistance to SAFRUDI and CBE partners to build their enterprise capacities and become significant market actors. For example, in 1999, one funding agency, which was also the main buyer of SAFRUDI and the GBP producers' association from the late 1990s to the early 2000s, provided more than PhP1 million (AUD22,200) to SAFRUDI for a revolving microcredit fund to finance the working capital of micro-enterprises. As counterpart fund, SAFRUDI contributed PhP1 million, too (SAFRUDI, 2001). The funding agency also financed a series of business training and endowed the GBP producers' association with its means of production, such as a welding machine and industrial tubs (Interview with GBP association officers).

These two capacity-building programs, however, failed to take root. The micro-credit program encountered repayment problems and was unable to sustain itself (SAFRUDI, 2007). One reason for its failure was attributed to the inclusion of non-CBE partners, who reneged on their amortisation. As a result, the objective of financing the capital needs of legitimate CBE partners was not achieved. Further, the GBP producers' association seldom used the equipment because they lost

Figure 7.1: In-house capiz production process



From left to right:

First panel, cutting: Capiz shell was cut manually using a pair of industrial scissors. Metal casts were used to cut the shapes, e.g., heart shape in different sizes or lotus petal.

Second panel: cut capiz shells were soaked in muriatic acid to remove dirt and impurities then washed with water; these were then laid out on trays for drying then spray painting. After the paint had dried, the quality was checked and then given to 'binders' or PRWs who edged the shells with brass wire. The binders applied the right amount of pressure that would flatten the wire around the edges without breaking the shell.

Third panel: The tools used for binding were an iron board, a flat hammer and a thimble-like contraption to guide the wire while it was being flattened. Only one worker was observed using the thimble-like contraption. The noise could be deafening when all four workers did the edging. The painting room, washing area, cutting area and binding section were at the fourth floor of the production and warehousing building.

Edged capiz shells were brought to the 'welding' section at the third floor. The term used for soldering is welding. The brass-edged capiz shells were soldered together using an electric soldering iron and acid flux solder, which emitted an acidic odour.

Dusting. The term used for handpainting the edges and base of the lotus candleholder. The paint was mixed with 'gold' dust, hence the term 'dusting'. This process was eliminated because electroplating was cheaper and more efficient although some ATOs preferred hand-painting.

their main buyer when it shifted from trading to advocacy. Hence, their market changed, from house and garden décor to fashion accessories and required a different means of production.

From SAFRUDI's perspective, there were several recurring factors that hindered the development of producers into self-reliant entrepreneurs. These were:

1. Informality of enterprise.
2. Weak management that was expressed in perennial cash flow problems, poor quality control, late delivery and lack of communication and poor bookkeeping practice.
3. Availability of raw materials.
4. Lack of product innovation.

From the CBE partners' perspectives, these recurring issues and dynamics could be attributed to their limited means of production, capital and information asymmetry. The data, however, showed that SAFRUDI and CBE partners' capacity to grow appeared to be restricted by a form of market isomorphism that included:

1. Target price-setting, which depressed payment of fair price and fair wages and encouraged sub-contracting.
2. Design exclusivity, which hindered SAFRUDI and buyers from generating a return on investment on product research and development.
3. Market segmentation, which constrained market exploration and expansion.

These business practices were not found to be mutually exclusive but seemed to reinforce one another and this, in turn, abetted the recurrence of 'old' issues between SAFRUDI and CBE partners. Other factors, such as local business practices, aspirations of GBP communities and CBE partners vis-à-vis SAFRUDI's social enterprise objectives and lack of second-generation entrepreneurs were found to play a role, too, in determining CBE partners' decision to become significant market actors. Further, inactive CBE partners whose products were not as marketable as active partners were expected to flourish on their own or wither away (see Chapter 8). The findings are now discussed in relation to the issues and dynamics identified by SAFRUDI and active CBE partners.

1. Informality of enterprise

As discussed in Chapter 5, social economy organisations could register in various government agencies to become formal organisations. Of the 24 active partners, only the producers' co-operatives and three of its active family enterprises were formally registered. But, since most of the

active CBE partners were family enterprises, issues related to informality of enterprises constantly recurred, such as bookkeeping, issuance of official receipts for tax purposes and fair trade compliance. For example:

The producers don't keep books. We've already taught them so many times during the APA. When you follow up on them, they tell us it's difficult to do. They don't even want to write, to take notes. For co-operatives, it's not a problem but for family enterprises it's a struggle. They don't like recording. They also don't want to register and get business permits. They're still in the informal, backyard production stage (Ester – interview).

However, due to the seasonality of production, some CBE partners thought that it was impractical to renew their licenses, while others had financial difficulties doing so. To illustrate:

We did not have a mayor's permit in 1993. SAFRUDI would give us POs twice a year ... it was not worth it to get a license. The only time we had a license again was in 2001 during the *Kalakalan 2000* [a government program to support MSMEs] (Renaissance family enterprise – group interview).

Our business situation was the same so we also did not have a business permit until SAFRUDI's order became regular (Levity family enterprise – group interview).

My DTI registration is good until 2013 ... but I haven't renewed my mayor's permit because I can't afford the fee of PhP7,000 (AUD155) ... 2010 was really a difficult year ... my house was demolished by a freak cyclone so money is tight (Kalinga family enterprise – interview).

2. Weak management

Cash flow problems and limited means of production

SAFRUDI paid 40% of the total value of a purchase order as a cash advance to enable CBE partners to initiate the production process as soon as possible. However, the process between approval of a product sample and placement of order could take months and by the time an order was placed, the availability and prices of raw materials might have changed and the working capital of producers depleted. But since producers were tied to a certain price level for two years, they could not increase their selling price. Hence, producers would rather get their cash advance as soon as purchase orders were received to take advantage of lower prices as the case might be:

We add from 3% to 5% allowance to account for price increase in raw materials, but even if the price increase exceeded the allowance, our price remained the same ... that's because we're under a two-year contract (Levity family enterprise).

At the same time, SAFRUDI expected producers to have their own working capital when the production season commenced. During the annual producers' assembly (APA), the issue of cash advance was again brought to the fore:

The issue of early release of cash advance is an old issue. We've been partners for a long time ... by now it's should already be solved. The cash advance is only initial payment and SAFRUDI expects you to fill it up with your own working capital ... The purpose of cash advance is not to finance the whole production (Vicky – APA open forum).

Producers, however, insisted that what they were requesting was merely to revert to the old policy of releasing the cash advance simultaneously with their POs and to deduct the full cash advance only after the final delivery of products. For producers with multiple or volume orders, the cash advance payment was a form of bridge financing. Hence, they resorted to partial deliveries so they could also be paid partially:

We are only requesting not to deduct the whole 40% CA from the amount of partial delivery ... our request is to deduct only 40% of the CA; this was the 'old' policy to allow producers to roll over their working capital for the next delivery. The problem of multiple POs with due dates close to each other is we cannot cope up with delivery due to downtime⁹ and immediate deduction of 40% CA from partial delivery. Our cash flow is affected ... so now we are experiencing late deliveries which have not happened before (Renaissance family enterprise – APA open forum).

However, the immediate deduction of the full 40% cash advance from the value of partial deliveries defeated their purpose. Hence, they borrowed from informal lenders at high interest rates to ease tight cash flow problems:

When there are several volume orders, I borrow cash from everywhere and when I receive the full payment, I feel like feeding the chickens (Levity family enterprise, APA 2010).

⁹ Downtime refers to the waiting period of two weeks between releases of cash advance payments and/or final payments. The downtime is also the quality control period required by SAFRUDI to test for appearance of moulds and to weed out items damaged during transport.

From SAFRUDI's point of view, the solution to CBE partners' cash flow problems was to negotiate with SAFRUDI if additional working capital were needed for several volume orders. But, the policy could not be changed because other producers needed to receive their cash advance payment and the organisation's cash position was limited, too. Another solution offered to cash flow and delivery problems was for producers to factor in all possible scenarios that could affect their production commitments. For example:

To avoid late delivery penalties, include the two-week period for cash advance and final payments, respectively, including the number of days needed to source raw materials in your lead time (Anthony – APA open forum).

From CBE partners' perspective, however, these would just lengthen the production period which they tried to avoid. Although the traditional artisanal production system helped minimise labour costs, its downside was live-in workers maintained by producers had to be supported through cash advances and subsidies:

It won't be a problem if we got a new PO one week after full delivery of the previous PO because we would have a new cash advance (CA). If we had CA we would have revolving working capital but if we got a PO after one month, business would already stop ... our capital would be gone (Renaissance family enterprise – group interview).

Our expenses do not stop ... we have to maintain a number of workers so when an order comes, we can initiate production right away. Otherwise, they will leave and look for other jobs, and then we'll be in trouble (Levity family enterprise – group interview).

However, with SAFRUDI and FTO buyers as their only market, it seemed that the cash flow problem of CBE partners would remain a recurring issue:

SAFRUDI is our only buyer since 2003 ... though currently a Cebu-based trader has ordered 300 pieces of our handicrafts after we joined a Cebu trade fair. SAFRUDI is not enough although order is consistent ... When there is no order, there's really no other source of income (Kalinga family enterprise).

Poor quality control

Materials used in handicrafts, such as wood, bamboo, abaca and *nito* were prone to moulds and colour fading. But, due to safety concerns, the use of finishing chemicals, such as varnish and paint, to treat these materials had been minimised. Although they were sun-dried, moulds might still

affect them during shipment. Since fair trade products were more expensively priced than similar products in mainstream shops, FTO buyers demanded stringent quality control. This was also to erase the image of shoddy workmanship that fair trade products had acquired in the past. Thus, SAFRUDI constantly searched for appropriate technology to assist CBE partners in treating their materials. For example, during the annual producers' assembly, a speaker recommended boiled water, salt and vinegar mixture as a simple and inexpensive solution to treat raw materials and prevent the occurrence of moulds.

However, other quality issue irritants among FTO buyers, SAFRUDI and CBE partners could be resolved by simple human action. This included reading the product specifications in the PO receipt and comparing them with the product prototype held by producers and adhering to the five-piece sample for SAFRUDI approval before commencing full production. This system was put in place because it was easier to repair five pieces than 100 when quality-related problems or product discrepancies arose. As Cesar reminded producers, ensuring the quality of handicrafts was paramount in gaining the loyalty of buyers:

Our buyers expect that from the beginning, quality assurance is incorporated ... You have to read the PO carefully for the product specification so there would be no rejects. We don't want to blame anyone, we don't want to pay penalty and we also don't want our reputation tarnished. Our motto should be: '*Pag SAFFY, Quality*' (If it's SAFFY, it's quality) (Cesar – APA open forum).

From the producers' perspective, however, the two-week time lag for checking product specification and quality assurance that coincided with the period for processing the cash advance payment was an unnecessary delay. Some producers appeared not to maintain product prototypes for control so they resorted to borrowing product samples acquired by SAFRUDI. However, some samples were not returned or damaged upon return. Hence, product rejections by buyers sometimes occurred because SAFRUDI did not have the control sample for quality assurance. For example:

We had an entire PO rejected because the colour was not right. When it comes to colour, you can't repair that anymore ... you have to do it all over again. Because we made the mistake, we replaced the entire order and suffered the loss (Renaissance family enterprise – group interview).

During the APA, SAFRUDI unveiled stricter guidelines including payment of fees for each item borrowed or damaged to restrict the practice:

We emphasized to them that the next time they borrow a sample from us, they will have to pay PhP2000 (AUD44). It should be their lookout to make a control sample for themselves. They should not rely on the sample that we bought from them. Imposing that rule is also part of developing their awareness and concern as a business (Cesar – interview).

Producers, however, viewed rejects as inevitable in the handicraft business because the items were made by different hands and produced at home:

Rejects are part and parcel of the business. For example, I shouldered the cost of repair and transportation of the rejected *moras* items that SAFRUDI sent back. I asked some workers to work in my workshop in replacing the wood handles that had moulds ... I paid them PhP200 each and provided free meals so I could supervise them (IndieCrafts family enterprise – interview).

Although some FTO buyers did not penalise SAFRUDI and CBE partners for first time mistakes, others required them to shoulder the labour cost for repairing items. For example:

Some buyers don't charge SAFRUDI while other buyers charge us for labour cost incurred repairing or treating the items. One of our producers has not been paid yet for a rejected PO. Producers who are paid are lucky. If a PO is not fully paid, it becomes double headache for a producer with a large volume order because the final payment depends on the buyer ... We are still awaiting the buyer's instructions for the rejected PO (Ester – interview).

As regards capiz shell products, SAFRUDI's in-house production staff believed that the quality of in-house capiz shell products could not be matched by sub-contractors and other capiz producers. He attributed this to the care with which piece-rate workers approached their work:

I've met a lot of people who go for sub-contracting like one of our capiz producers and those who supply products for ManoMano. The quality of their work cannot compare to the work of the in-house. Although our products are priced higher because we observe the minimum wage law, the output is worth the pay of the piece-rate workers. That is something that I am proud of. For example, in-house cutters could already tell from the raw materials if they could cut it. The number of rejects is limited because they are very thorough when it comes to checking the items ... they pass through many eyes. The workers of sub-contractors use punchers so the cut items simply drop on the floor ... they

run after quantity but when the items are rejected, they have to replace them. So, their work is actually doubled (Anthony – interview).

Because of the benefits they enjoyed, piece-rate workers valued the organisation and ensured the quality of their work. As examples:

Even with no one around supervising us, we know when our work is good or not. Sometimes for the capiz, the binding is loose because the brass is hard. So we give them to the welders to fix them. If there are pieces damaged by cutting, we give them to a cutter so he could replace them immediately (Rina and Emilia – group interview).

Quality assurance process

SAFRUDI employed a quality assurance staff that meticulously inspected the quality of products supplied by CBE partners. Unlike mainstream corporations that sampled randomly, SAFRUDI checked items individually against the product prototype. Thus, quality assurance took two weeks. Although this might seem inefficient, the process also enabled SAFRUDI to employ piece-rate workers whenever the quantity of the items to be checked required more people. Sometimes more than five piece-rate workers were assigned to finish quality assurance for large orders in the two-week period. However, an implication of this meticulous quality assurance was that producers could not be depended on to deliver quality products even if they subjected the products to their own quality assurance process. For example, with only one major buyer, the active GBP producers' association was discovered to also check the products made by members individually against the control product prototypes. During my fieldwork, the core leaders re-assembled a batch of necklaces made by a worker-producer that did not match the prototype. The ISDP organiser who was assisting the group said:

It's better to repair the necklaces before delivering them to SAFRUDI. I'm bringing them with me ... whenever SAFRUDI find defects and I happened to be in Manila, I do the repairs so the GBP is not penalised (Miguel – group interview).

However, despite the quality assurance undertaken by the GBP producer, the process would be repeated again in SAFRUDI's headquarters by the quality assurance staff. Hence, the organiser brought with him extra beads and findings in case additional repairs were needed. In other cases, extra items accompanied the delivered products to replace rejected items.

This was also true for producers who were accompanied by one or two workers during the delivery of products. For example, in one of the deliveries made by a woodcraft producer, a stack

of rejected salad bowls and trays was set aside in the corner of the warehouse for repair. The producer was observed looking forlorn, surveying the stack of bowls to be repaired. From an untrained eye, the bowls looked fine and even the producer and worker accompanying her had difficulty discerning the imperfections that needed repair:

I don't factor in anymore the additional cost of repair because it will just jack up the price ... we have our own quality standards and these passed ... but SAFRUDI is stricter ... I will have to inspect closely why these were rejected. Sometimes the wood grain affects finishing that's why there are some whitish spots in the wood ... I'll just ask a worker to re-varnish the items. Other buyers are not as meticulous as long as there are no holes ... but we have to follow SAFRUDI's quality standards (Woodcrafts family enterprise – interview).

Because the quantity was quite significant, the producer brought the rejected items back to the province for repair.

Late deliveries and lack of communication

Another recurring issue between SAFRUDI and CBE partners was late deliveries and lack of communication. This was not so much a problem for family enterprises, who lived in town centres, but for producers' associations, who lived in hard-to-reach communities, where establishing regular communications and transport was difficult (see Figure 7.2 photo of weaver riding on the back of a motorcycle on p. 278). For example, the active GBP association had a computer but had no use for it. Since the centre was located at the foot of a mountain, telecommunications service was erratic. To access e-mail, one of the leaders had to go to the village CBD (commercial business district), incurring transportation costs. Hence, it would take days before communications could be established. However, aside from limited access to information technology services, it also seemed that producers' associations were disadvantaged vis-à-vis family enterprises because of the former's participatory governance structure. Because leaders and members had to be consulted, decision-making took longer compared with family owners, further aggravating the problem of delayed communications. The issue of group decision-making is discussed in the *Participatory governance dimension* section (p. 231).

Access to the means of production

As noted earlier, one of the solutions offered to reduce delayed deliveries was to incorporate all the factors that affected the production cycle in the lead time. For marketing, however, a longer lead time, from 60 days to 90 days, was unacceptable when negotiating with buyers, although they

contributed to late deliveries. While the suggestion appeared sensible, another issue at stake was ownership of, or access to, the appropriate means of production. For example, SAFRUDI outsourced the cutting of capiz shells because it deemed the die cutting technology to be cheaper and more efficient than manual cutting of capiz. The same was true for other processes that had been sub-contracted, such as the moulding of the metal base of lotus candle holders and painting of edged brass wires. In the recent past, these were all done by hand. The ‘sacrificing’ of the gold-dusting¹⁰ section followed the same logic: to free up labour from the more expensive, time-consuming gold-dusting done by hand and transfer the two remaining workers (already resigned) to non-technology replaceable work like welding. By so doing, SAFRUDI hoped to ‘protect’ the two workers and still preserve the number of piece-rate workers employed. However, it only further demoralised the workers, one of whom applied for work as a domestic helper overseas (Interview with piece-rate worker). In the case of producers, such as the active GBP association, the customised cutting of wood beads was sub-contracted to a wood-beading workshop but since the volume ordered by the association was low compared with other fashion accessories makers, the order was not always prioritised. This aggravated delayed production and, consequently, late deliveries ensued.

Although traditional handicraft technology may be rudimentary and labour-intensive, such as the manual cutting of capiz shells, handicraft producers argued that it was what made their work unique, ‘hand crafted’. Although technology was necessary for other production processes, such as wood bead-making or wood bowl-carving, most handicrafts produced by SAFRUDI and CBE partners did not require expensive technology, unless the volume of orders increased to such extent that would require SAFRUDI or its partners to invest in their own die cutting machines or in the case of the active GBP, its own wood bead-making machine.

3. Availability of raw materials

The problem associated with availability of raw materials appeared to be related to the seasonality of production, too, and not just to the CBE partners’ cash flow problem:

SAFRUDI can stock up on raw materials and maintain their price at a lower level ... unlike us ... we would buy the raw materials only when the order arrives ... we can’t stock up on raw materials because we don’t know what the order will be. So sometimes the colour used in the product sample is not available anymore when the order arrives (Levity family enterprise – interview).

¹⁰ Gold-dusting referred to the process of hand-painting brass wires by mixing a powder called gold-dust to liquid paint.

The overall unpredictability of the handicraft market in turn affected investments in raw materials. For example, a family enterprise that supplied *moras* to other producers factored in the price buyers were willing to pay before investing:

I have buyers now placing order for *moras* but because the price they quoted before was very low, I told them to just place their order to whoever was willing to accept it ... I told my tenants to plant upland rice instead ... Two years ago, some SAFRUDI staff visited me and asked me to send a number of samples and not to sell my *moras* as raw material. They said there would be volume orders but I told them I would lose if I did not ... in fact the volume order did not materialise ... I received only one PO from SAFRUDI ... that was in October ... it's very frustrating (IndieCrafts family enterprise – interview).

Furthermore, some of the raw materials used were not considered cash crops by farmers. Hence, their availability depended on whether they were left to grow naturally in farm peripheries or in the wilds. As examples:

We buy *buri* in neighbouring towns because they're no longer grown in our municipality. So to ensure we have available supply, we had a re-planting program. We asked *barangay* officials and farmers if we could plant in common areas and we also asked member-producers to plant in their own farms and backyards (Ruth – interview).

The *batang-batang* vines are gathered in the forest. We have a member whose family gathers the vines for us whenever we have an order for crazy weave fashion stands or balls. It's a two-hour trek up the mountain and three-hour trek down, so they go early in the morning (Lita – group interview).

Despite the difficulty encountered by SAFRUDI and CBE partners in securing raw materials, buyers expected the development of product prototypes within two weeks after sending their new designs. However, the 30-day period that SAFRUDI negotiated for product development also appeared insufficient:

Sometimes buyers are in a hurry; they want the samples within two weeks. So we lobby that it's not possible. Even if they're in a hurry, we want to make sure that we 'delight the customer'. So we advise them to wait at least 30 days. However, both in-house and outside producers are often late when it comes to delivering product samples. It takes time before we can comply (Marketing – group interview).

Figure 7.2: Buri weaver riding at the back of a motorcycle



A member-producer of the Buri Handicraft Producers' Association deftly balanced herself at the back of a motorcycle while holding the dried buri leaves and bags of supplies bought from another town.

4. Product innovation and market isomorphism

As can be gleaned from the above and earlier discussions on product research and development in the *Economic dimension*, several interrelated factors were found to affect the willingness of CBE partners to innovate and invest in their own product research and development. These included the target price, uncertainty of the market and lack of financial resources. However, capitalist business practices adopted by SAFRUDI and FTO buyers, such as design exclusivity and strict product segmentation between export and domestic markets also seemed to curtail rather than expand the market scope of SAFRUDI and CBE partners.

5. Exclusivity and market segmentation

As discussed under the *Economic dimension*, SAFRUDI became the owner of product samples acquired from CBE partners. In turn, an FTO buyer that ordered from SAFRUDI became the 'owner' of particular item/s ordered by requesting SAFRUDI to make them 'exclusive' to the buyer. The reason given was to avoid competition among FTOs and giving mixed signals to consumers. For example:

Some of them who are in the same country compete against each other. An example is the US market where we have two FTO buyers. Sometimes they ask us to tell the other buyer

that they have already purchased a certain product. If they sell the same items to the same market and their prices are different, then it would raise questions among consumers especially because they are both fair trade members. So, they should not compete against each other (Cesar – interview).

Because of the perceived competition among FTOs, the system of making products exclusive by country had become institutionalised:

If it is our design, we inform other interested buyers that the product has already been ordered by a particular buyer. So, if interested buyers are in the same country, we are not going to sell it to them. But if the buyers are from a different country, then we can sell the product to them (Cesar – interview).

While FTOs created their own designs, they also allowed FTOs from other countries to order their designed items from SAFRUDI:

Sometimes, it also happens that a buyer from a different country would like to order a product designed by a buyer from another country. What we do is we ask the original designer of the product if they will allow us to sell their product. If the designer agrees, then we will sell it to the buyer, as long as the buyer is from a different country. Again, that is part of transparency and respect. It is done to avoid overpricing and under-pricing. When that happens, the customers will question the fair trade principles. So, that is the reason why we have exclusivity of products (Cesar – interview).

Although the system was viewed as transparent and respectful, exclusivity appeared to be a form of market isomorphism. First, while it was understandable for FTOs to claim exclusivity to their own designs, doing so for products developed by SAFRUDI and CBE partners seemed unfair given the target price and low quantities ordered. Secondly, since the FTOs were part of the same network, they could institute a uniform pricing system for the same items ordered in each country rather than limiting SAFRUDI's market through exclusivity claims. The practice appeared a form of market isomorphism because mainstream companies practised exclusivity to generate higher profits (Barber & Krivoshlykova, 2006). Thirdly, the injunction against selling handicrafts intended for the export market in the domestic market also appeared to have the same effect of curtailing market expansion. Given the investments made on new products annually and the low purchase order translation rate, it did not make economic sense for SAFRUDI to constrain itself from offering unordered product samples to the domestic market. Perhaps a shorter embargo period could be

observed, for example, one year rather than stockpiling them in its Display Centre over several years hoping for buyers to order from thousands of unordered product prototypes. Thus, the private sector practice of design exclusivity and strict market segmentation adopted by fair trade buyers raised the question of who was benefiting from it.

6. Other factors that hindered growth and viability of CBE partners

Except for the producers' co-operative able to partner with a major North American mainstream business buyer (see *The case of the Buri Handicrafts Producers' Co-operative* in Chapter 8), most of the interviewed CBE partners indicated disinterest in becoming exporters or expanding their markets. As already discussed, the benefits derived from being a SAFRUDI partner was enough for CBE partners. While being an exporter was viewed as a form of self-reliance, it seemed CBE partners did not aspire to become exporters because of the problems associated with this. As one producer said: 'We used to be an exporter before and we had British partners ... it's a lot of headache ... We're happy being a SAFRUDI supplier' (Levity family enterprise – group interview).

Lack of second-generation producers

The lack of second-generation successors appeared to be a concern among founders of family enterprises who worried about the continuity of their business. While the family enterprise had enabled children to pursue higher education, it seemed that they preferred building professional careers or working overseas than taking over the family business that their less educated parents had founded. For example:

Our children have their own lives ... One is a ship captain in an international shipping company while our others have their own interests. Even if we wanted one of them to follow in our footsteps, we could not force them. Unlike before, parents running their own business could always count on one child taking over the family business (Levity family enterprise – group interview).

We also have one child working in the Middle East. Our other two children are also not interested although my eldest helps out in driving and buying the raw materials ... but he's not interested in running the business (Renaissance family enterprise – group interview).

My husband and I are just waiting for our youngest to graduate from university. After that, we would retreat in the upland village where I grew up. My four children are all grown up and my eldest son, who works overseas, assists us financially. He asked his father, who was

working in Manila, to retire early so we could spend more time together (IndieCrafts family enterprise – interview).

Among worker-producers of the Buri Handicraft Producers' Co-operative, it seemed handicraft production was not a business or profession that their children should aspire to. Although it allowed them to earn and enjoy modern amenities, their earnings were invested in their children's education to enable them to have better life chances:

Thanks to the co-op I was able to send my three children to college. My eldest is a teacher, the second is working in Manila as an engineer, while the youngest is still studying. Through 80% [of my income] from handicraft I was able to do it. I could not believe that they were able to go to college because we are poor. Now, my daughter is helping me send my youngest to college (Eleanor – group interview).

The co-op is very important to us because it helps our family, especially in the education of our children. It's a big boost to us financially. My eldest is graduating from college this year while my second is a freshman college student (Haydee – group interview).

My eldest daughter is a nurse in Saudi [Arabia] while my second son works in Manila. He is a product of the co-op project ... he was able to finish college because of my income. My brother, on the other, helped send my daughter to college. My third son is still in college while my youngest is in grade 6 (Minda – group interview).

Unfair mainstream business practices

Because of past experiences with unscrupulous business owners, some CBE partners also were not interested in selling to local exporters and buyers. For example, family enterprises and the active GBP producers' association had local exporters absconding with their payments (see *Benefits and disadvantages of being an active CBE partner*, p. 252). Although the active GBP association supplied to a private exporter, who claimed that she was a fair trade practitioner, their experience did not bear this out:

She became a fair trade member only because she wanted to have a competitive advantage in the burgeoning fair trade market in Japan. But she is very stingy. And even if she gets angry, we fight for our price. We tell the owner: 'If you cannot accept our price, we will not make it ...'. Sometimes the company's foreign buyers ask us to come to the office to renegotiate the price. They want us to lower our price but we tell them that it's already the lowest we can offer based on fair trade principles. If they find our price too high, they don't

order. There was one time that they did. The company's buying price was PhP65 (AUD1.44) but we insisted on our price which was PhP90 (AUD2). We got the order but the volume was reduced (Interview with active GBP association).

Participatory governance dimension

This dimension analysed how SAFRUDI's avowed principle of 'trading partnership, based on dialogue, transparency and respect' was practiced in relation to partner producers; how SAFRUDI, backed by buyers, pursue awareness raising and education to change the inequitable 'rules and practice of conventional international trade' (WFTO, 2001); and, how the governance structure of SAFRUDI is implemented. The indicators used to analyse further the strengths and weaknesses of SAFRUDI in deepening economic democracy and sustainable social development were:

10. CBE partners and GBPs (*Gabay sa Bagong Pag-asa* or Guide for a New Hope Association) have the right of 'voice and exit'.
11. Ensuring the accountability and transparency of fair trade principles.

It was found out that *while dialogue, transparency and respect were adhered to, achieving the aim of deepening economic democracy and sustainable social development through participatory governance was mixed and ambiguous* because:

1. In a buyers' market, exercising the right of voice and exit was against the interests of the seller/producer.
2. Although annual visits by FTO buyers helped ensure the trust good character and protect the niche market of fair trade crafts in the North, their impact on SAFRUDI and CBE partners seemed limited. Since the niche market could not be expanded significantly, the visits did not translate to more concrete, long-term outcomes for the producers, such as higher purchase orders, greater appreciation for their artisanship through higher prices and sustained political and fair trade advocacy at the global level.
3. Organisational structures mirrored a market model, while an NGO work culture pertained, and this generated mixed results.
4. The biggest management challenge was how to balance the social and economic needs of all stakeholders.

Fair trade advocates and supporters assumed that fair trade principles were adhered to by fair trade practitioners from the beginning of the value or supply chain to the end-market. If that were the case, then fair trade would have achieved its objective of democratising the market. However, not all market actors, such as raw material gatherers and suppliers or traders, were in the fair trade loop

and, therefore, could not be enjoined to adhere to fair trade standards. Even CBE partners could not be expected to adhere to them fully. As Cesar noted:

The producers are not fair trade members. They are linked with us because they are our suppliers ... but they are not 100% adherent. But, as much as possible, when they produce for us, they should be working in accordance with fair trade principles. For instance, they should provide the artisans an opportunity to learn something [new] ... We require them to do that even though they are not paying members. If a producer realise that it is more beneficial to be a paying member then that is much better ... but it might be too much financially since there are requirements to be met, such as paying annual fees, attending conferences and strict compliance monitoring (Cesar – interview).

Aside from the fees and requirements, it might not even be in the interest of CBE partners to practise these principles as they could drive up prices further the supply chain, for example, by paying a fair price to raw materials gatherers and all other market actors below. Given the already ‘high’ price of fair trade handicrafts in the end-market, FTO buyers and fair trade consumers might not be willing to pay more.

Fair pricing or ‘target pricing’ was found to be the most contentious issue among producers and SAFRUDI piece-rate workers and, since the principle ‘transparency and respect’ was often invoked in price negotiation, CBE partners interpreted it as a means of control to drive prices down. On the part of SAFRUDI and FTO buyers, transparency in price negotiation meant a win-win outcome for all. By tweaking certain production processes, modifying the design or replacing certain materials, the product’s aesthetic qualities would still be preserved and a ‘fair’ price would still be paid. But, as earlier discussions showed, meeting the FTO buyers’ target price had its costs and not everyone won equally.

10. CBE partners and GBPs ... have the right of ‘voice and exit’.

This EMES indicator assumed that a social enterprise was an open organisation whose members, with equal decision-making power, had the right of voice and exit. In the case of SAFRUDI, CBE partners and FTO buyers it seemed that their right of voice and exit was limited to their ability to meet their obligations as buyers and sellers. Although the fair trade principle of *transparency, accountability and respect among fair trade buyers and producers* was a governing principle, it was quite challenging to determine to what extent sellers and producers could exercise their right without losing the FTO buyers’ purchase orders. For example, one of the reasons for the ascendance of family enterprises over producers’ associations could be, ironically, their participatory governance

structure that limited their ability to decide quickly. Hence, they were disadvantaged against family enterprises with limited accountability. As Ester explained:

Although we prefer associations, groups, or co-operatives over individuals, it's very difficult to negotiate with them. If I talked to one of them, that person won't be able to give me a response right away ... she would have to communicate first with other members ... sometimes it takes a while before we hear from them. You have to keep on following them up, which is very time-consuming. But individuals, they can decide immediately (Ester – interview).

Thus, in a buyers' market, exercising the right of voice and exit seemed to be against the interest of the seller/producer. While family enterprises might be easier to partner with than producers' associations, the social mission of helping the most disadvantaged sectors appeared to be negated for the sake of efficiency and meeting market demands. Although family enterprises were able to employ piece-rate workers in their communities, the traditional artisanal production arrangement practised by family enterprises could not approximate the more equitable distribution of social and economic benefits practised by producers' associations (see Chapter 8).

Although SAFRUDI provided enough leeway to accommodate CBE partners who were remiss in their contractual obligations, recalcitrant ones were 'dropped' and those that owed SAFRUDI money were referred to its debt collection agent. SAFRUDI characterised its approach as part of respect for its CBE partners. As Cesar explained:

We had to drop some producers because they were acting unconcerned. When they signed the POs, they agreed to deliver on the due date. But when the due date came, they weren't able to deliver. We gave them several chances in the past. However, on the third or fourth time, we knew we had to drop them already. That is part of respect ... If you could not respect the agreed upon due date, then we could not continue with you anymore. Sometimes, they still owe us something so, we just refer them to our collecting agent and we let them talk (Cesar – interview).

GBP graduation

In 2011, three GBP associations that have been supported for over two decades 'graduated' from ISDP. 'Graduation' meant a GBP organisation was already self-reliant and no longer qualified to receive funding from SAFRUDI. Self-reliance was defined by SAFRUDI in terms of the capability of GBPs to support their activities from their own socioeconomic activities or by accessing local government funding. However, graduation did not mean that the partnership had ended. The ISDP

would still continue providing technical assistance, such as project proposal writing and business advice. While the ISDP had benefited many rural poor communities through its various projects, SAFRUDI also expected them to develop community products that could be sold in the fair trade market. As mentioned earlier, of the GBPs organised, only four became handicraft producers and only one had remained active in 2010. Of the three GBP graduates, two were inactive handicraft producers but had thriving social enterprises that supported the needs of members (see *Social entrepreneurship from the ground*, p. 320 in Chapter 8), while one was the remaining active handicraft producer.

Although SAFRUDI deemed that the three GBPs had reached organisational maturity, the members interviewed felt unsure and apprehensive. Leaders of the active GBP association, which was based in the Visayas, felt that given its current level of operations, it might not be able to participate as actively in institutional activities, such as the annual retreat and GBP assessment and planning that were always held in the island of Luzon. For example, in 2010, it reached only 37% of its targeted PhP1 million sales annually. While the Luzon-based GBPs had thriving self-help lending programs and village drug stores or pharmacies that allowed them to support the daily allowance of several representatives, they might have to scale down the number to just one or two to afford the full cost of participation. Thus, from their perspective, they still had limited self-reliance to support all their activities. This assessment seemed to be validated by SAFRUDI's backtracking on the turnover of a GBP centre to one of the graduates because the GBP might not be able to maintain the building.

While organisational independence and serving other marginalised communities were valid goals, it appeared that there might be a pragmatic reason, too, for phasing out from the three longest-supported GBPs. That is, to expand to underserved rural communities that could offer agricultural produce for SAFRUDI's venture into the fair trade food market (SAFRUDI Annual Report, FY 2009-2010). Since the process of crafting sustainable development programs was not explored in this study, it is not imputed that SAFRUDI did not practise participatory bottom-up processes that allowed rural communities to understand the challenges of engaging in the market.

11. Ensuring the accountability and transparency of fair trade principles.

Ritual visit or genuine solidarity?

FTO buyers regularly visited SAFRUDI and CBE partners. Some visited annually while others arranged educational tours for supporters and staff from time to time. While these visits originated from political solidarity in the past, they now seemed to perform several tasks: validate the trust good character of products by 'auditing' the adherence of producers to fair trade principles,

introduce the social actors at the opposite ends of the fair trade chain, and to scout for new products. Almost all of the CBE partners interviewed had FTO visitors at one time or another or were invited into SAFRUDI's headquarters to meet the buyers. However, it seemed that in the past CBE partners did not know who their foreign buyers were:

'We tell them who the buyers are. At first staff members didn't want to disclose that information. But, it is much better if the producers know where their products are going. That is part of transparency' (Cesar – interview).

Cesar added that producers knew about SAFRUDI's pass-on price to buyers but not the exact FOB dollar price. He said that they knew about SAFRUDI's pricing scheme and the percentage added for the fixed costs, social premium and other expenses:

We don't tell them the exact amount. We just tell them that we add a certain percentage for our fixed costs, another for the social premium and another for other expenses. And then we will convert it to dollars. It would be very tedious for us if we always give them the amount for their items ... how much the buyer will be getting their products. What is important is they understand the process of our pricing (Cesar – interview).

However, some CBE partners said that they would like to know the exact price that buyers paid for their products and be included during price negotiations between SAFRUDI and FTO buyers:

We haven't had a meeting wherein buyers, SAFRUDI and producers sat down to talk about price. We discuss with SAFRUDI our pricing scheme ... we're very open and transparent with them. The buyers visit us at our production site at home but when it comes to price, only the buyers and SAFRUDI talk about it (Kalinga family enterprise – interview).

Other CBE partners thought that there was no need to sit down with them since they trusted SAFRUDI:

We don't think we need to sit with them ... besides if we were losing, we would just stop. When you say fair trade, it means being transparent and having mutual trust. SAFFY trusts us, in return, we trust SAFFY. We don't know the buying price of SAFRUDI's buyers ... but SAFRUDI knows ours ... we're transparent ... We trust SAFFY and as long we're viable, we're already fine with it (Levity family enterprise – group interview).

While CBE partners knew about the pricing scheme, there seemed to be some sort of secrecy and approbation against staff when producers borrowed samples or picked up rejects with the FTO's

price tags and labels still attached. Thus, CBE partners who were expected to be open and transparent about their pricing and costing but were kept from knowing the selling price at the end-market received mixed signals:

We haven't tried asking how much is the selling price of our products abroad ... we see them sometimes in the product samples we borrow ... it seems though that we're not allowed to see them because they remove the sales tag. One time, when we picked up the rejects they got irked when the sticker and price tags were still attached ... perhaps because we found out their secret ... But they told us that the reason the price was expensive was because the product went through many processes before it reached the final destination like the number of people who packed the product, the cost of packaging and labelling, the shipment, etc. On the other hand, we're very transparent ... they know the minutest detail of our costing and we trust them (Renaissance family enterprise – group interview).

Ester said that whenever fair trade buyers visited CBE partners, they checked on their adherence to fair trade principles by looking at their books. With producers' associations this did not appear to be much of a problem. However, family enterprises found bookkeeping challenging to do. Thus, they could not show their costing schedule, such as raw materials used and wages paid. On the other hand, it was not clear whether fair trade buyers did the same to CBE partners, i.e., explain their costing and pricing. It seemed unlikely though as CBE partners already said that they were excluded during price discussions between SAFRUDI and FTO buyers. To redress the situation, SAFRUDI was banking on the SFTMS (Sustainable Fair Trade Management System) certification to force family enterprises to comply with legal requirements to formalise their business and put in place management and administrative procedures. As Ester said:

It's a real challenge ... somebody from SAFRUDI has to focus on them but we don't have that kind of staff. We're looking at SFTMS to solve that [recording] problem. SFTMS will look at the overall enterprise situation of producers. Of the 25 active producers, only the co-operatives are formal enterprises while among family enterprises only three are registered (Ester – interview).

Although FTOs had shown concern about workers' pay and tried to experience the production process, it was not clear how this information and experience was used:

I have met some of our fair trade buyers from the US and Europe. They are concerned about how the workers are paid. They also want to experience hands-on the process of

making the items they order. For example, they try doing the lamination of capiz. When buyers visit us, they get as much information as they can about how items are produced and if the workers are being paid properly (Anthony – interview).

We had a delegation from a US buyer in 2010 ... all store managers of their outlets came. They realised that it was difficult to make and they wanted to know how the work can be quickened. It means they wanted to buy at a lower price. I think that was the intention. If our price was low, they can order more (Marcelo – interview).

While there were some instances where the number and volume of purchase orders increased after a buyers' visit, the reason appeared to be not out of solidarity but due to items not seen before:

There have been instances where the buyers started ordering more items after their visit. When buyers come here, they see items that are not promoted on the website. So, sometimes before they leave, they would already place their order for production. That's the positive side because it's added income for us (Anthony – interview).

I think they became more aware of SAFRUDI after the visit ... they asked why workers left to work abroad. They asked how much workers earned and they looked at the costing. We were transparent with them. They're still price conscious but they really placed a lot of orders. I think their visit proved positive. They were frank and they have structures that even they didn't understand (Marcelo – interview).

Although the visits appeared to be a continuation of the North-South solidarity tradition, the constraints faced by the crafts market in the North seemed to limit their impact as far as SAFRUDI and CBE partners were concerned. While the visits ensured the trust nature of the crafts sold to Northern consumers, it seemed that they could only protect the fair trade crafts' niche market but not expand it significantly. Thus, given the expectations that visits would translate to more concrete outcomes for the producers, such as higher purchase orders, greater appreciation for their artisanship through higher prices and sustained political and fair trade advocacy at the global level, the visits appeared more like ritual solidarity for them.

Corporate structure versus NGO culture

As a registered non-stock, non-profit foundation, the profit distribution constraint applied to the organisation. Technically SAFRUDI was not allowed to engage in business; hence, it established SAFFY Incorporated as a separate for-profit intermediary marketing corporation. However, capiz production was managed by SAFRUDI. While legally distinct organisations, management and

staffing were employed under the umbrella organisation SAFRUDI. Both SAFRUDI and SAFFY have the same board of directors, with a few of them founding board members. Except for the chair of the board, who consulted once-a-week with the executive director, none of the other board members were actively involved in the day-to-day management of SAFRUDI. However, the board meets every quarter.

In its early years, SAFRUDI had a flat organisation. During its growth years in the 1990s, its structure had changed to a more hierarchical one. In preparation for the retirement of Sr. Juliaan in 1989 and the turnover to a new crop of managers, changes had been instituted to strengthen its management and professionalise its operations. The restructuring, which had continued until the mid-2000s, called for the establishment of management and financial systems, as well as manuals of operations for the departments established. Coinciding with re-structuring was the retirement of old staff, called pioneers, and an increase in the number of administrative and management employees. A producer remembered doing business with only a few staff members while older piece-rate workers recalled a cubicle-less administrative office. By the turn of the 21st century full-time management and administrative staff grew to 46 (SAFRUDI, 2001), while the piece-rate production workers numbered 57 broken down as: (i) piece-rate capiz workers (35); (ii) stitching section (12); and (ii) home-workers section (10). In 2010, the number of administrative and management staff totalled 37, while piece-rate capiz workers numbered 17. Table 7.6 shows SAFRUDI's organisational structure, their major responsibilities and number of staff.

The adoption of a corporate structure in the late 1990s affected the pay scheme of piece-rate workers. It seemed that newly-hired college-educated staff, who were earning less than the piece-rate workers, felt a sense of entitlement for a higher salary scale. The re-structured salary scheme pegged the pay of piece-rate workers to the minimum wage. Although piece-rate workers still out-earned regular workers during peak production months, their take-home pay had decreased compared with their previous income:

In 1997, some changes were made. They reviewed the salaries of the workers when newly-hired employees, who were earning PhP7,000 (AUD156) a month, complained. Some of them became jealous because piece-rate workers were earning PhP20,000 (AUD444) a month. In one of the meetings, they brought that up complaining that they, who were educated, earned so little, while we, who didn't finish school, earned bigger. They protested against our big salary because we weren't educated ... they didn't take into consideration that we're working from five a.m. to eight p.m. while they worked only

eight hours. The piece-rate workers' pay decreased because of the new employees' complaint (Obet – interview).

However, to compensate for the loss, piece-rate workers were provided employee benefits and retirement pay, which earlier generations of workers and regular employees had not enjoyed:

In 1998, a second batch of pioneers who retired from the office were paid their retirement pay. All the employees from the office who resigned before that year didn't get anything (Obet – interview).

I think it started in 1999 because a former auditor said that retirement benefit was compulsory for regular workers. So SAFRUDI set up a retirement plan for regular and piece-rate workers alike (Vicky – interview).

Table 7.6: SAFRUDI's organisational structure, 2010

Department	Main responsibilities	Number of staff
Production	In-house production of capiz shells, product research and development and quality assurance.	7 (17 PRWs)
Marketing	Local and export marketing and location of new products and producers.	8
Finance	Financial management, such as overseeing payments, pricing and bookkeeping.	5
Administration & Planning	Human resource development, office support and logistics and planning for institutional activities.	5
Materials	Labelling and packaging, such as putting FTOs' prices and labels and packaging based on FTOs' specifications and shipment.	7
ISDP	Social development and community organising.	4
Executive director	Overall management.	1
Total regular staff		37

Although the corporate structure had been in place for 20 years or so, it seemed that corporate values had not been fully assimilated. In an NGO work culture that continued to value unstructured working relationships, this was found to generate mixed results. For example, during the open forum, producers were reminded again to address their business correspondence, including product prototypes, to the department responsible not to the person they had talked with, to avoid delays in communications. With more steps to follow and more departments to deal with, the bureaucratic procedures appeared bewildering to them, too, and more prone to errors:

In the past, they had only three staff in the office. There were no confusion when it came to processing papers ... Even in production, there were only three of them ... no computers, only typewriters but they seldom made mistakes. Now, they have computers and the

number of staff has increased but they make mistakes that affect us (Levity family enterprise – group interview).

Even inter-departmental coordination seemed to be problematic. For example, the management committee (ManCom) comprising department heads and the Executive Director, met quarterly for assessment and planning; but, instead of institutionalising systems and fostering efficiency, the opposite appeared to be happening. Departments that were supposed to coordinate their recording system appeared not to exchange information and data. Hence, records were not reconciled even if data coordination and harmonisation was already decided in previous meetings. Also, it seemed that there was no proper turnover of records by staff members who had resigned so writing off donated property and equipment for auditing purposes became challenging (ManCom meeting notes, 26 October 2010). The SAFRUDI website could not be updated, too, because the password was lost and the former developer could no longer remember it (Interview with Ester).

Ironically, while piece-rate workers and senior employees, who experienced the simpler and flatter structure, seemed to be alienated by the corporate structure, newer employees, who came from the private sector, welcomed the informal and less regimented work culture (see *Benefits and disadvantages of working in SAFRUDI*, p. 248). From the piece-rate workers' perspective, the informal code of conduct previously practised by management, as represented by Sr. Juliaan, fostered greater solidarity and bonding between production and administration:

The superiors are very different to my supervisors in the past. Probably, it's just because I got here first. What is missing now is the bonding. With the pioneers, we used to eat together under the *santol* (sour apple) tree or we would go out for lunch and contribute about PhP100 each ... so, there was bonding. A gap was made after the first batch [of pioneers] left and new employees came in. They didn't follow the pattern of their predecessors. The new ones are very modern because of the current technology. Freedom is also affected. We were free to express our opinions before but now it seems criticisms are not welcomed (Obet – interview).

The biggest management challenge for SAFRUDI, however, was how to balance the social and economic needs of all stakeholders. Although the organisation was trying hard to preserve its organisational integrity, the marginalisation of the in-house production department was hard to overlook. With a now top-heavy administrative structure to support, the organisation's future seemed uncertain. Unless sales recovered soon, or a funding partner could be found, its dwindling financial resources might not be able to support everyone in the long-run. While the fair trade food

market might provide the answer, the organisation would have to pursue it in a manner that would be sustainable for its partner communities as well. (In 2013, SAFRUDI spun off its production unit and turned over its assets to laid off workers who formed their own workers' co-operatives. The spin off resulted from the stricter enforcement by the Securities and Exchange Commission of the regulation prohibiting foundations from pursuing activities unrelated to their mission. Due to the ongoing investigation regarding the Priority Development Assistance Fund discussed in the previous chapter, bogus foundations were discovered to have been used to siphon off public funds to unscrupulous individuals and corrupt public officials. Thus, foundations with business activities have to spin off or cease their operations. One positive consequence of the stricter implementation was it gave SAFRUDI an opportunity to streamline its social enterprise.)

Conclusion

This chapter has discussed the experiences of SAFRUDI and its CBE partners in the post-ODA social development financing period where the social economy had taken centre stage. The EMES SE framework in the context of the FT concept (Becchetti & Huybrechts, 2007; Huybrechts & Defourny, 2008) demonstrated that SAFRUDI and some CBE partners seemed to embody the characteristics expected of SE FTs. However, blending the economic dimension with the social and political dimensions proved very challenging. Although SAFRUDI endeavoured to achieve its social mission by interlacing its trading activity with fair trade principles, its limited fair trade market tested the organisation's adherence to its social mission of total human development for all its intended beneficiary communities. This is because the fair trade market – though a hybrid market – seems not immune to recession and cyclical market shocks. As discussed in Chapter 3, the worldwide fair trade market remains a small niche market. This is even more so for fairly traded handicrafts than for food commodities. Hence, the challenge for SAFRUDI and CBE partners to sustain their social enterprise appeared greater.

As a market-oriented social economy, SAFRUDI and some CBE partners had demonstrated the entrepreneurial acumen celebrated in the literature of social entrepreneurship. Although there is consensus among commentators that the practice of social entrepreneurship does not always lead to profit generation, the need to generate their own income to support their social mission seemed to pressure both SAFRUDI and its Northern FTO buyers to adopt capitalist market practices. Hence forms of market isomorphism were found to stymie the attainment of the fair trade mission. Since being entrepreneurial, i.e., through product innovation and risk-taking, did not guarantee market success, price sensitivity had become the primary competitive factor. Thus while SAFRUDI

endeavoured to pay fair price to producers and fair compensation to its employees and piece-rate workers, target price-setting seemed to negate this by reinforcing the economic injustice against marginalised workers. The difficulty of producing under the target price constraint and its adverse effects on in-house production workers were repeatedly emphasised by the SAFRUDI staff and producers.

The pressures brought about by SAFRUDI's declining market had a knock-on effect on the social and political and democratic governance dimensions. However, the effects were differently felt by the different types of communities served. Although piece-rate workers and regular employees questioned SAFRUDI as a practicing FTO, they found working in SAFRUDI as a source of meaningful work and personal fulfilment. Despite the challenges, CBE partners also expressed their trust and high satisfaction with SAFRUDI, especially when recalling their experiences with buyers from the private sector. Also, true to its social mission of helping marginalised groups, SAFRUDI employed various means to soften the adverse effects on piece-rate workers and their families. These expressions by the staff and CBE partners were consistent with the literature on the social economy's social ethos and values that make it distinct from the market sector.

Another aspect of the social dimension was the FT objective of assisting Southern producers to graduate from being informal enterprises to independent market players. On one side, while active family enterprises seemed more enterprising and easier to deal with, *inter alia*, they appeared not to share this objective due to the difficulty of sustaining the market. On the other side, producers co-operatives that were formally organised and better positioned to ensure the trust good and public good character of fairly traded handicraft seemed to be prejudiced for their democratic decision-making process.

The political dimension was found to be the weakest. The FT principle transparency and respect was frequently invoked, but it seemed that in a limited market, exercising the right of voice and exit militated against sellers and producers. The participation of producers and piece-rate workers in decision-making was limited to market information sharing and price negotiation. These were not addressed by FTO buyers' regular visits, which seemed to focus on auditing producers' adherence to FT principles. Although these might have ensured the trust good and public good character of fair trade crafts, thereby protecting the niche market in the North, FTO buyers could not guarantee more robust trading relationships. SAFRUDI's adoption of a corporate structure to make it more efficient and effective generated mixed results. Since corporate values appeared to clash with NGO work culture, systems meant to protect workers, increase efficiency and effectiveness were not fully implemented. However, the biggest management challenge discovered was how to balance the social and economic needs of all stakeholders.

The next chapter discusses the second part of Case Study 1 and presents the case of inactive CBE partners and the different paths they took after handicraft production for SAFRUDI ceased.

Chapter 8

Flourish or wither away: The case of four inactive CBE partners

This chapter is the second part of Case Study 1 and presents the case of four inactive CBE partners seen in light of the unintended consequences of SAFRUDI's socioeconomic program. For example, creating opportunities for disadvantaged producers and capacity building of producers and their workers was a purposive action on the part of SAFRUDI and past funding partners but factors beyond their control appeared to have played an important role in the growth or demise of four inactive CBE partners. Of the four, the Buri Handicraft Producers' Co-operative is presented as a complete case study, while three are presented as vignettes: dissolved Southern Luzon Handicraft Producers' Co-operative; defunct family enterprise; and inactive GBP associations. The discussion on the Buri Handicraft Producers' Co-operative highlights what seemed to be true hybridisation envisioned by the EMES SE framework, including a mainstream business assimilating fair trade principles and community values. The vignettes underscored the contrast in experiences among the different CBE partners. The main findings in this regard were the following:

1. Sometimes, a 'lucky turn of events' (Portes, 2010, p. 20) could transform a struggling community-based enterprise into a successful SE FT. A mainstream partnership grounded on fair trade principles and the social economy's social ethos could be mutually beneficial, enabling each partner to assimilate each other's values, thereby strengthening both businesses' viability.
2. While members of the defunct Southern Luzon Handicrafts Producers' Co-operative were adversely affected by globalisation, it seemed that home-based workers were the most affected by reverting back to poverty.
3. Since handicraft production was household-based, family dynamics coupled with limited financial resources could result in failure among family enterprises.
4. Small-scale social enterprises that were oriented to the needs and socioeconomic conditions of communities seemed to have higher chances of being sustained than a social enterprise founded to meet external market demands.

The case of the Buri Handicraft Producers' Co-operative: A lucky turn of events

The Buri Handicrafts Producers' Co-operative was a struggling community-based enterprise before it met its mainstream buyer in 1998. While SAFRUDI provided technical assistance and other BDS to help the co-operative acquire entrepreneurial skills and compete in the fair trade market, a trading relationship with a North American wholesaler/distributor in a non-fair trade market was what ensured its feasibility. Thus, the general finding *sometimes, a 'lucky turn of events'* (Portes, 2010, p. 20) *could transform a struggling community-based enterprise into a successful SE FT. A mainstream partnership grounded on fair trade principles and the social economy's social ethos could be mutually beneficial, enabling each partner to assimilate each other's values, thereby strengthening both businesses' viability.* Table 8.1 summarises the findings from the case study of the Buri Handicraft Producers' Co-operative that establish it as a SE FT.

Table 8.1: Summary of findings

Economic dimension

The main finding under this dimension was *even when it was still in its infancy, the co-operative fulfilled the EMES economic dimension of blending trading, donations, community resources, and other social capital. At the time of fieldwork, the co-operative was found to generate its own income principally through trading and was no longer dependent on external donors. It was discovered to have a viable trading partnership with a private corporation that seemed to be mutually beneficial and not primarily governed by economic terms but also by the social economy's social ethos. Being in the pet toys market, which seemed to be less subject to seasonal trends and fashion, the co-operative appeared to flourish and keep its less profitable, but mission-oriented, economic activities afloat.*

Social dimension

The main findings under this dimension were: *through its feasible trading activity, the co-operative was able to help the larger community, improve the quality of life of member-producers and their families; distribute limited profits through patronage refund and dividends; and strengthen the membership's unity and solidarity.*

Participatory governance

The main findings under this dimension were: *middle-class management of the co-operative, which helped many Philippine co-operatives to prosper, was behind the success of the organisation. However, the co-operative faced the challenge of an ageing crop of middle class managers and a lack of leaders from the ranks of grassroots members who could steer the co-operative further into the future. In principle, the 'one-member, one-vote' governed institutional decision-making but exercising this power called for an informed constituency. To engender a strong stakeholdership among member-producers and enable them to balance the benefits enjoyed by members with its larger vision and mission, the co-operative membership had been undertaking co-operative education and capability-building.*

Economic dimension

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Beginnings of the social enterprise

The Buri Handicraft Producers' Co-operative was found to engage in trading, albeit on an on-and-off basis in the beginning. It began in the 1980s as an informal income generating project (IGP) to help poor church members whose children were the beneficiaries of a German-supported pre-school based in a Protestant church. With financial support from the German faith-based agency, the church provided free kindergarten class and nutrition program. In 1984, a young German volunteer initiated an income-generating project for mothers after seeing them weaving mats while waiting for their children. It became a formal co-operative in 1991 when counterpart funding required by foreign funding agencies became the norm:

The first investors were actually members of the Church. We officially became a co-operative in 1991 after the pre-school's funding agency required counterpart funding ... Our Church's local counterpart was the monthly contribution of the parents from the co-operative and the donations we received. Sometimes it really was not enough. We had various IGPs but what sustained the kindergarten was handicraft (Ruth – interview).

The co-operative has three economic activities: retailing (consumers' store), lending and handicraft production. However, only the handicraft business was found to be profitable and it subsidised the two losing, but mission-oriented, activities. With a small base of clientele and low mark-up, the consumer store had difficulty supporting itself, while the lending operations had collectibles inherited from a previous lending program funded by the German faith-based agency. As its auditor said:

The consumer store is always losing because it's dependent on members' purchases and its mark-up is really low. It can't pay for the staff employed and of course they have fixed costs

– utility and maintenance. As for the lending program, it does not generate enough profit because most borrowers don't pay regularly. So lending stops if there is no collection. When the co-op cannot roll over the collection, there's no income. On the other hand, their fixed costs continue. Lending is still ongoing but loan releases depend on collection. So when you look at the coop's overall operations, it's only the handicraft division that's viable and it subsidises the losses of the store and the lending program (Roberto – interview).

Before it met its current buyer in 1998, the co-operative was supplying abaca angels, *buri* bags and princess boxes to SAFRUDI and another FTO exporter-buyer in Manila. However, their combined purchases were small and infrequent, which generated very little profit for the co-operative:

Before we met our current buyer, we received purchase orders from SAFRUDI twice a year. We also had another FTO buyer based in Manila. Like SAFRUDI, it has contacts in Europe, US and Australia but their order was very limited and our profit small. Aside from getting a certain percentage as discount, the FTO still added a mark-up to our price ... The only time we had volume orders from SAFRUDI was in 1993 and 1994 when an international personal care company ordered *buri* bags as packaging material. But because it was channelled through SAFRUDI, 20% of the cost of the POs went to the organisation. However, we haven't had an order that big again (Ruth – interview).

A mutually viable trading partnership with a private corporation that is governed not only by economic terms but also by the social economy's social ethos

The co-operative's major buyer was a pet toys distributor in the USA. However, the partnership had not been actively sought by the co-operative. Instead, it was initiated by the owner of the company who scouted for several Philippine craft producers that could supply pet toys made of natural and non-toxic materials. The distributor had been introduced to the producers' co-operative by the regional office of the Department of Trade and Industry. When the partnership was struck, the member-producers had year-round production and sometimes had difficulty coping up with bulk orders:

He orders in volume. So, even if SAFRUDI doesn't order from us, we still earn. I think the last one we got an order from SAFRUDI was in 2006 when we sent samples for the trade fair in Bangkok (Ruth – interview).

The frequency of the PO depends on the order of the buyer; it can be weekly or it can be monthly (Jessie – interview).

We receive our PO almost every month. We rarely become vacant. Sometimes our POs come one after the other that I have to get extra workers to add to my four regular workers (Arlene –interview).

Thus, the co-operative considered itself fortunate to have struck a viable and long-term partnership that allowed it to expand its market in a different direction, i.e., from household handicraft items to pet toy products. As Ruth said:

Fortunately, our current regular buyer has allowed us to survive. We didn't expect that he would become our long-term partner because you see it is hard to take care of a buyer ... At first he just ordered two designs but it became a hit with his buyers. From the two initial designs, more designs were ordered and in different sizes. We have been partners for more than 10 years now. Imagine for the last 10 years we've been producing pet toys only. Owners must truly love their pets. We already know the bestsellers, the repeat orders (Ruth – interview).

However, the co-operative was not spared from the economic recession in 2008 when the volume of production declined. To protect the co-operative from further market instability, the buyer, who had become a close supporter, introduced another pet toy distributor with markets in Europe and Canada. The new buyer began placing orders in 2010. The action of the buyer seemed magnanimous but it might have been motivated by self-interest, too, after some member-producers were discovered to supply pet toys for a European-based competitor during a lull in production. As a result, the partnership, first based on mutual trust, was dented and so a formal exclusivity contract between the buyer and the co-operative was drawn up to prevent a similar occurrence in the future.

The annual gross sales of the co-operative's handicraft business in contradistinction with SAFRUDI's top producers are shown in Table 8.2. The sales of the co-operative and the top 1 family enterprise of SAFRUDI were almost the same in 2008 but the co-operative's sales in 2009 was one-and-a-half times bigger than the value of the top two family enterprises. The handicraft sales of the co-operative in 2009 were higher, too, compared with its previous year's sales, which included the consumers' store and lending operations.

Table 8.2: Sales of producers' co-operative and top 2 SAFRUDI producers

Handicraft sales	2009	2008
Pet toy's producers' co-operative	2,916,356.67	2,435,321.13*
Top 1 SAFRUDI family enterprise	1,000,000.00	2,200,000.00
Top 2 SAFRUDI family enterprise	1,000,000.00	1,400,000.00

*Includes sales of consumers' store and lending

With a new buyer in 2010, the co-operative's handicraft production had picked up again:

For this year [2011], the PO keeps coming. When the volume of the PO is large, I deliver twice. But when it is small, I deliver everything at once (Jessie – interview).

While the buyer was a mainstream private distributor, the co-operative was able to forge a business relationship based on fair trade principles¹¹. Similarly, he was treated like an FTO buyer and was introduced to member-producers in their community thereby gaining close-hand knowledge of their socioeconomic situation:

We told him that we're a co-operative and a fair trade practitioner ... We brought him to visit the member-producers in their villages so he would understand that we're not just about business. Every time he's here, he would make a round of visiting them again and would be happy to note the changes ... like he would comment on house improvements made by them (Ruth – interview).

Hence, the fair trade policies adhered to by the co-operative might have provided him, too, a value-added in the end-market. For example, the distributor's product labels contained the sort of information that would only be found in FTO labels. The personal affinity established might have also allowed him to confront the co-operative, after finding out about the action of a few member-producers, in a manner that resonated with community ethos, at the same time enabling it to adopt rational business values to govern its operations. As Ruth explained:

The board crafted a carefully-worded resolution which bound the member-producers and their workers to protect the business interest of the co-operative and the buyer without sounding threatening to them. But the 'guilty' producers and their workers were expelled from the co-op. However, some member-producers help them by giving them work ... but I think they learned the lesson that unlike in local production, our buyer is different (Ruth – interview).

¹¹ The producers' co-operative became a member of the WFTO through SAFRUDI's advocacy.

Similar to development agencies, the buyer acted as a sort of funding agency by sponsoring the business development services and social activities of the co-operative. He also donated to the construction of its business centre, which included accommodation for visiting buyers like him. And, like other external donors, he had a plaque of appreciation posted on the façade of the building. While the motivation might be self-interested, i.e., to advance his business interests, the relationship appeared to have a two-way effect, providing him personal meaning and purpose:

We would have picnics and mall tours ... or sometimes he would treat us to restaurants which our producers had never experienced before. He tells us that it's like his second life after suffering from an illness in the past (Ruth – interview).

On the part of the member-producers, they negotiated the price of new products directly with the buyer based on the minimum daily wage rate in the region and the time and motion of the most skilled weavers. Unlike FTO buyers, the producers seemed to have more control over pricing because they were not constrained to work within a given target price. Hence, while the buyer was not a fair trade member, they considered him a fair business partner:

He may not be a fair trade practitioner but in a way he's fair. Whenever we have our yearly product development, he pays for everything, like the raw materials used and the labour of the weavers. With SAFRUDI, we shouldered all the expenses. Furthermore, the producers are the ones who compute the price of the items ordered, not the buyer. The producers would give him the price and would explain why they think that should be the price for an eight-hour work and he would accept it. I think the current minimum daily wage in the region is PhP186 (AUD4). The co-operative just put a mark-up of about 30-40% for administrative, transportation and other expenses (Ruth – interview).

The piece-rate price the co-operative paid to producers included labour and raw materials, while the co-operative's selling price to the buyer included a mark-up ranging from 30 to 40%.

Product development and exclusivity

When the partnership was established, the member-producers did not know how to weave pet toys so they taught themselves to master the craft. But, even after a decade of weaving pet toy products, not all member-producers and their workers had acquired the same level of skills:

We really persevered when we first learned how to weave pet toys because we knew only how to weave *huri* hats, baskets and mats. I have been doing pet toys only for the past eight

years. We are assigned certain tasks to do because we don't work at the same pace and we also have different skills. One worker may be working only on hexagons; while another may be just weaving the mouse-shaped pet toy (Jessie – interview).

To enhance the skills of weavers and foster their creativity, the buyer initiated an annual competition in 2008. The product development competition had been timed during his annual visit to the organisation when he brought with him various products that served as models in crafting new product prototypes:

He brings designs that we execute or toys made of different materials that we use as models. For the door bouncer, for example, we based it on the tail of a bouncing ball which was like a spring. He asked us to make a product that a pet animal could not easily unravel so we all contributed ideas on how to do it. What we did was to weave three layers of *buri* and an abaca thread to hold the tail together. We also contributed ideas in making another difficult to execute product and the buyer ordered it (Rosie – group interview).

According to the weavers, the buyer had chosen winners from the different product samples made based on the criteria of attractiveness, strength, quality and speed of work. The winners had been awarded the 'Master Craftsman Award' and a modest cash prize of PhP1,000 (AUD22) each, while non-winners received PhP500 (AUD11) as consolation prize:

Not all of us join in the product development, only those with the skills join. There were 10 weavers who got PhP1,000 each in the sample-making contest in 2009. The buyer chooses the samples he likes best based on creativity and quality. But even if the others do not win, they get a consolation prize of PhP500 (Fe – group interview).

I have not won yet the PhP1,000 prize for the sample-making contest but everyone who joins receives PhP500. I think he knows what his customers like that's why he always chooses the most attractive and well-made samples (Rosie – group interview).

Since the market was not subject to fashion trends, the weavers were freer to be creative as long as they observed the number of colours to be used per product type. Hence, colour combinations varied per worker:

When we dye we try different colours to see which look best. We are making a lot of different items, so it would be difficult if the buyer give us very specific colour

arrangement. The buyer will just tell us how many colours to use for a certain item ... we decide on what colours to use and how to combine them (Arlene – interview).

Although the co-operative could not offer the pet toys to other interested buyers, the new buyer ordered the same products for sale in another North American country. Thus, similar to FTO buyers, competition was avoided. It was not clear though whether the selling price was similar. In addition, while there was a product exclusivity agreement between the buyer and the co-operative, it acknowledged that the co-operative was a co-designer and co-owner of the product:

We said that although he is the buyer and designer of the products, both of us own them. He may have created the designs but the weaving skills come from our people. We also innovate on his designs, like these toys for cats. Originally, they didn't have feathers and the item was smaller. But we innovated, we used *buri*, we put feathers and we made them bigger. In the waiver, it is stated that everyone had an input in a sample (Ruth – interview).

While constrained by the exclusivity contract, the member-producers were free to augment their income by weaving traditional crafts, such as bags and hats. Some of them were found to be supplying other buyers as sub-contractors and maintaining a separate group of weavers who preferred traditional crafts:

I make hats for other exporters but I'm not really the direct contact ... there is another one who consolidates the products. I have around 10 workers for hat-making. Most of the women in my village prefer to weave mats than pet toys. They say that what we make in the co-op is more difficult to weave than hats. So they just wait for the PO for hat-making. When it comes then they earn extra while staying at home (Arlene – interview).

Distribution of purchase orders among member-producers

To ensure fairness, the distribution of purchase orders was based on a producer-worker category. The criteria included skills, ability to work fast and to deliver on time. Category A producer/worker got the highest percentage, while category D producer/worker got the lowest. The categorisation was also a form of incentive to less skilled and slower workers. As Ruth explained:

We divide the PO equally among producers based on a producer-worker classification. We have categorised our producers and workers according to their speed and quality of work. We have four categories: A, B, C and D. A certain percentage goes to each category, so

that the workers from the lower categories would be encouraged and motivated to move to the next higher category (Ruth –interview).

Table 8.3 shows an example of how a purchase order was divided among the producers.

Table 8.3: Distribution of a purchase order, by producer category

Category	Number of member-producers	Distribution by producer category (unit in pieces)	Total purchase order (unit in pieces)	% distribution of total purchase order
A	17	50	850	38%
B	14	40	560	25%
C	12	36	432	19%
D	17	24	408	18%
Total	60		2,250	100%

Household-based production system

The member-producers had home-based workers under them with whom they sub-divided the purchase orders. The workers were not necessarily co-operative members but were free to join the co-operative. Some of the leading member-producers used to be workers of pioneer-members. Based on the following example, the distribution between members and workers seemed to be equitable, with the former retaining only what she or the household could afford to produce:

The number of workers depends on the PO. If the quantity ordered is low, then three workers would be enough. You just ensure that you have items to make otherwise, you won't earn if you give everything to your workers. Sometimes, I earn PhP2,000 (AUD44) or PhP5,000 (AUD110) for one delivery. For example, if I get a PO totalling PhP7,000 (AUD156), PhP5,000 (AUD110) goes to the workers. For this PO I delivered, I had four workers (Jessie – interview).

Citing this example, the producer seemed to retain only 29% of the total amount of the purchase order while distributing 71% or PhP1,250 (AUD28) each to the four workers. Additionally, the member-producer earned from packaging products into two's or three's or securely attaching a product into the buyer's packaging label. The fee ranged from PhP0.50 to PhP0.80 per pack. However, there was no additional labour price for products that required attaching only the price tag of the buyer. Furthermore, part of the value of purchase orders given to workers seemed to

remain in the member-producer's household because production was household-based. And, even when non-relatives were employed, the ultimate beneficiary remained the household:

Handicraft-making is household-based; husbands and children usually assist. So it's possible to have two or three household members working on the project. It's the family or household that is making a living (Haydee – group interview).

My husband helps me by doing certain parts. I pay him based on the number of items he makes (Jessie – interview).

Anyone can be a worker. It does not always have to be one's relatives. My workers live in another village and I am glad to be able to help them (Josefa - group interview).

To increase their household income, workers seemed to sub-contract for several member-producers. But, since there were more people working in the household, the delivery date and continuous work would still be assured. As examples:

If the workers want to earn more, they get POs from several members. If they are industrious they can get order from four members. But we are all mindful of our due date. We really work hard to meet the delivery date (Arlene – interview).

We also set a deadline for our workers. If our delivery is Monday, their delivery is Sunday. They deliver on time because we divide the PO among them. They knew that if they could not deliver, they would not get a PO. They have to deliver every week because this is a source of income for their family, too (Rosie – group interview).

Piece-rate pay for member-producers and workers

Unlike co-operative member-producers, workers did not receive the full piece-rate price for an item. For example, instead of being paid PhP17 (AUD0.38) for an item, workers received only PhP16 (AUD0.36). The PhP1 kept by the member served as her share of (or commission on) the purchase order, which was lower than the traditional rate of PhP2 kept by sub-contractors for hat- or mat-weaving. Since workers could not process their own raw materials, they had to buy them from member-producers. A roll of dyed *buri*, for example, cost PhP100 (AUD2.20). The price included a 35-peso mark-up to cover the cost of *buri*, food dye, transportation and processing. Thus, workers were encouraged to join the co-operative to enjoy the full benefits accorded to member-producers.

Quality assurance and prompt payment

On each day of the week, groups of producers delivered their finished products to the centre for packaging, quality assurance, payment and getting their next purchase order. For example, a group of 12 producers delivered on Mondays, while another group delivered on Tuesdays and so on until Friday. Since they were direct stakeholders, the producers seemed to have a stronger work ethic. Hence, rejected items appeared rare. An office staff randomly tested only certain products to check their strength, thus avoiding longer quality assurance and work duplication:

We usually make more items in excess of the current PO so we already have some stocks for our next order. If we have rejects and the deadline is already due, rejected items could easily be replaced too (Jessie – interview).

Even without a PO, we continue working so that we already have the stock when the PO arrives. We don't dye the *buri* leaves though until we have received the PO (Minda – group interview).

Unlike SAFRUDI, the member-producers got their payment and the next purchase order at the end of the day.

Social dimension

The main findings under this dimension were: *through its feasible trading activity, the co-operative was able to help the larger community, improve the quality of life of member-producers and their families; distribute limited profits through patronage refund and dividends; and strengthen the membership's unity and solidarity.*

Helping the larger community

The co-operative had a current membership of 109, 60 of whom were member-producers. The rest were retired weavers, administrative staff and prominent church members, including some of the original founders. From the examples, the number of people benefiting from the handicraft business was higher because each member had a group of household-based workers ranging from three to more than 10. The number of communities benefitting seemed larger, too, with workers coming from different villages:

In my village, there are 15 member-producers and I think the workers are thrice our number (Jessie – interview).

I have more than 10 workers living in another village. They include my sister, nieces and other relatives (Minda – group interview).

The co-operative was no longer part of the pre-school program of the Church but it continued to support it through a provision of the 2008 Co-operative Code of the Philippines. The Co-operative Code (Article 86, Section 3) required co-operatives to allot 3% of their net surplus to a community development fund to benefit the community where the co-operative operated. Although the kindergarten program had also developed into a self-sustaining activity through tuition paid by current generation of parents, the co-operative's contribution kept its bonds with the Church and its social mission. In 2009, the community development fund amounted to PhP128,086.84 (AUD2,672) or 92% higher than the 2008 allotment.

Improved quality of life of member-producers and their families

Similar to family enterprise owners discussed in the previous chapter, the income generated by member-producers was used to provide their children better life chances through college and university education. They also 'invested' in modern household appliances to lighten their reproductive chores and free up time for their productive work, as these examples showed:

Because of the handicraft, I was able to buy household appliances. Like other member-producers, I have a sofa, electric fan, TV and shellane (gas stove using liquefied petroleum gas). I don't have a refrigerator because it uses a lot of electricity and I don't stock up on food. So it's not my priority. It would be useful if I have a store. Although some of the members have shellane, we use it only during rush hour when we have delivery. Gas is expensive so we have to be thrifty. When my children were still studying, I used the shellane because it was easy to light unlike wood or charcoal (Erlinda – interview).

When we have few orders, we can do the laundry daily by hand but when we are loaded with work, we do it weekly with washing machine (laughs) (Minda and Haydee – group interview).

After education and investment in appliances, house improvement appeared to be the next priority. Although producers who were visited at their residences seemed embarrassed, they were also proud of slowly building more durable homes out of their earnings (see Figure 8.1 on p. 309).

We enjoy many benefits from being member-producers of the co-op. My house used to be a *nipa* hut, now it's concrete. Although it is not yet finished (the roof is a combination of tin and *nipa* thatch), we are inspired to work (Minda – group interview).

After paying the workers for this PO, I'll use my income to pay for my child's school project, buy food and corrugated iron sheet because our roof is already leaking (Jessie – interview).

Payment of patronage refund and dividends

Since the pet toy handicraft business had transformed the co-operative into a profitable enterprise, members began receiving patronage refund and dividends in the mid-2000s. However, only member-producers received both patronage refund and dividends while ordinary members received dividends on their share capital contribution only. The patronage refund and dividends available for distribution totalled PhP768,521 (AUD17,078) in 2009 and PhP400,352 (AUD8,897) in 2008. The returns, after more than a decade of being a formal co-operative, were a welcome change for member-producers:

Our co-op has changed. Before we didn't have dividends and patronage refund, now we do. It's been five years since the co-operative started paying its members dividends and patronage refund (Lina – group interview).

In 2010, I received PhP3,000 (AUD67) as patronage refund and more than PhP2,000 (AUD44) as dividend. It's a good feeling to receive a certain amount of money that you don't expect because of your work. I'm glad I became a member (Arlene – interview).

Strengthening unity and solidarity

The handicraft business was found not only to provide economic and social benefits but, more importantly, to strengthen the unity and solidarity of member-producers:

Majority of our members are women and we really encourage them to support each other in craft production. We work as a team. Sometimes the staff are even involved in the production process. We also have a pool of students who are on call during rush delivery. They work Saturdays whenever we need them to assist in finishing and packaging (Ruth – interview).

Members reported to the co-operative centre to help each other in quality assurance, such as trimming excess *buri*, re-shaping deformed items and packing the items, to meet shipping dates:

I'm not supposed to be here but I told my husband that I'm going to the centre to help other producers. We're in a rush to load the items for delivery today that's why we're here even if it's not our delivery day (Josefa – group interview).

They also shared POs to help each other fulfil delivery obligations. While the original holder of the PO might forego her PhP1 share, she would still get full credit for the patronage refund when her total purchase orders were computed at the end of the calendar year and the member-producer, who received a portion of her PO earned, too:

If a member got a big PO and she could not make it, she could give a portion of the PO to me. She won't deduct PhP1 but she gets full credit for the PO when the patronage refund is computed. It's alright because it was her PO and because I also earned PhP1 even if I gave the work to my workers (Arlene – interview).

Figure 8.1: Fieldwork photos of buri handicraft producers



From left to right: Group of member-producers at the co-op office checking the quality of their *buri* pet toys and putting price tags and labels on the final product. Three of the senior weavers visited whose houses were slowly being replaced by more durable housing materials.

Workers were encouraged to join the co-operative to enjoy its full range of benefits. To be a member, a weaver had to pay a membership fee of PhP100 (AUD2.20), subscribe to PhP15,000 (AUD333) as share capital contribution and pay an initial amount of PhP1,000 (AUD22). Being a member-producer, however, required certain responsibilities, such as ensuring the quality of handcrafted pet toys, processing of raw materials, delivery, labelling and packaging and joining co-operative activities. Some of the leading producers of the co-operative had once been workers, thus, they knew what it meant to be a member:

I was a worker before I became a member in 2002. The producers in my village encouraged me to join the co-operative to increase my income. It's better to be a member because you have your own PO. You're not dependent on the work that the member-producer gives you. Besides, there are a lot of people who are out of work so you can recruit them. You can work on your own as well if you wish (Jessie – interview).

I decided to become a member in 2000 because it was much better in terms of income. If you're a worker, the PO is divided among many of you so your income is small. When my family's expenses started to increase I decided to become a member (Minda – group interview).

Despite the advantages of being a member, some workers appeared to be challenged by the responsibilities and personal sacrifices it entailed, while others were hindered by their limited financial capacity and work commitments:

My workers don't want join the coop because they say that being a worker is enough for them. They want to have time to rest and relax. As a member, you can't take things easy. We really have to focus on our work and we are sometimes short of sleep because of it (Jessie – interview).

None of my workers have become a member because it is still financially difficult for them to pay the membership fee and share capital. Also, they don't want to come to the centre to attend co-op seminars. They prefer to remain workers. They say that they don't like to come to the centre and put tags and labels. They would rather wait for the next PO. Still,

we encourage them to become co-op members and others have done so (Rosie – group interview).

I encourage my workers to join the co-operative because of the benefits they would get. But they do not like undergoing seminars required by the co-op because they are busy as barangay health workers. Also, the work they get from me serves only as extra income (Arlene – interview).

While there was self-exploitation among member-producers, the social and economic benefits accruing to them and their families seemed to compensate for this. Although husbands and older children helped member-producers, the latter still worked longer hours to meet delivery deadlines. Single parents, i.e., widows and members, whose husbands worked in Manila or overseas, juggled household chores in between productive work:

I sleep around 10 or 11 o'clock at night. Sometimes, I sleep at around one o'clock in the morning because I have gotten used to it. For this delivery, I worked till 11 p.m. and there were two nights when my husband and I worked until one o'clock in the morning (Jessie – interview).

I start working at eight o'clock in the morning and then stop at 10 a.m. to prepare lunch. After that, I start working again at one o'clock until five in the afternoon. Next, I prepare our dinner. I rest for an hour after dinner and then I work again for one more hour till eight in the evening so I can take care of my children. I have to divide my time because my husband works abroad (Arlene – interview).

Hence, despite the self-sacrifices involved, the member-producers seemed happy and fulfilled. They also expressed a sense of achievement and personal fulfilment derived from working and helping others:

The only thing that did not change in us is the way we look (laughs). The clothes we wear is what we have always worn, we don't use make-up. We have no need for it because we work at home (Haydee – group interview).

Somehow, this job is also relaxing. Because we are preoccupied with what we are doing we do not have to worry too much about our household budget (Arlene – interview).

I meet a lot of people ... I learned how to interact or socialise with different kinds of people. Before I just stayed at home but now I have been to other places. When I go to the co-op, I gain new knowledge (Minda – group interview).

A few pioneer members also continued being active to support the co-operative:

I'm already 71 years old but I don't want to stop working. I feel weaker when I'm not doing anything. Working here keeps me going. My children want me to go to Manila but I don't like living there. I prefer being active. I have five home-based workers under me whom I'm able to help (Josefa – group interview).

Although I'm versatile, actually I should already be a full-time retiree. I'm still working up to now and I'm turning 71 this year [2011] (laughs). It would be great if we have younger blood as full-time employees who could continue our mission (Ruth – interview).

Participatory governance

The main findings under this dimension were: *middle-class management of the co-operative, which helped many Philippine co-operatives to prosper, was behind the success of the organisation. However, the co-operative faced the challenge of an ageing crop of middle class managers and a lack of leaders from the ranks of grassroots members who could steer the co-operative further into the future. In principle, the 'one-member, one-vote' governed institutional decision-making but exercising this power called for an informed constituency. To engender a strong stakeholdership among member-producers and enable them to balance the benefits enjoyed by members with its larger vision and mission, the co-operative membership had been undertaking co-operative education and capability-building.*

Middle class management of the co-operative and lack of grassroots leaders

While non-producers comprised a minority in the co-operative, its management had always been in the hands of the middle-class members of the church. For example, in its early years, Ruth used to be the administrator of the kindergarten program, as well as manager of the co-operative. Although she resigned as manager to focus on her teaching job, she was asked recently to manage the co-operative again when the former manager of the co-operative, who was also a Church protégé, got sick and her responsibilities were reduced. While the co-operative had a mix of young and old generations of member-producers, the lack of second-generation leaders from the ranks of member-producers seemed to constantly hang in the back of Ruth's mind:

I consider myself only a part-time employee here although I'm again manager. Anyway, I've always told the board that we should empower and train the mothers. After all, what sustained our kindergarten school, our original program for the community, was handicraft. On the other hand, we are getting old and won't be here forever (Ruth – interview).

Thus, without a new generation of leaders from the ranks of member-producers, the future of the co-operative might be at risk.

Making the consumer store and the lending program viable would be a big challenge to whoever would be managing and leading the co-operative. For example, the store again generated a net loss of PhP122,117 (AUD2,714) in 2009 and also recorded a 10.4% allowance for probable losses on its trade receivables of PhP460,367 (AUS10,230) (see Table 8.2 on p. 300). The lending program, which was intended for personal and emergency needs, was dependent on collection from members, including inactive ones. Hence, if there were no collection made during the year, lending stopped. As Roberto illustrated:

The lending program is for the personal and emergency needs of members. It is not immediately deducted from borrowers. So it really has to wait for members to pay. The lending program includes the livelihood fund of the old kindergarten program. Some members and parents, whose children were beneficiaries, borrowed money to capitalise their *sari-sari* (mom-and-pop) stores. They are the ones who have stopped paying. So, the fund was exhausted. That is why the co-operative only has receivables now. If the handicraft division remains viable I guess it's alright but it is also unfair to other members because the lending program is dependent on borrowers who did not honour their obligations (Roberto – interview).

In lieu of the lending program, the handicraft business seemed to be providing the funds for responding to the personal and emergency needs of staff, officers and member-producers. Table 8.4 shows different accounts of loans receivables under the handicraft business. Assuming that trade receivables were unpaid purchases from the buyer, the loans extended to members, officers and employees comprised more than half of total receivables in 2009 and 2008 at PhP1.4 million (AUD31,335) or 57% and PhP1.7 million (AUD38,481) or 68%, respectively. The loans receivables included accounts such as 'scholarship fund', 'staff/workers' cash advances', i.e., for raw materials bought on credit by member-producers, 'advances to officers and employees' and 'other credit services'. Although the cash advances of member-producers seemed to be immediately

deducted, other loans receivables were not. For example, in 2009, the 'staff/workers' account comprised 16% of the total receivables in 2009, down from 38% in 2008, while, the share of 'advances to officers and employees' declined to 9% from 13% in 2008. As Ruth explained:

We don't automatically deduct the loans receivables because sometimes there are unforeseen events like sickness in the family. But we want the cost of raw materials to be fully paid after the purchase order is consummated ... the producers tell us the amount that can be deducted first, such as the cost of five kilos of *buri* or the cost of dye ... But sometimes we are lenient so they get cash advance. The co-operative buys the raw materials for them but some of the producers no longer depend on us for their raw materials (Ruth – interview).

The huge collectibles might not be immediately a problem but if allowed to accumulate, it might suffer the same fate as the lending program. As Arlene said:

When we hold our general assembly we discuss our profit and problems besetting the co-op. The members are usually concerned about the profits made by the co-op because we do not want to lose our money (Arlene – interview).

To strengthen the members' stakes in the co-operative, a portion of the dividends declared thrice a year was not paid in cash but credited to their capital contribution:

What is good about this handicraft producers' co-operative is that they automatically deduct members' CBU (capital build-up) contributions from their respective dividends so the CBU is sustained annually (Roberto – interview).

However, rather than making it mandatory for members to save their extra income, such as patronage refunds and dividends, saving in the co-operative was made voluntary:

We encourage the member-producers to save in the co-operative but we want those with receivables to pay first before saving (Ruth – interview).

Members spread their extra income by saving them, aside from the co-operative, in banks and in rotating community savings schemes or by investing in small businesses and agricultural lands:

I'm able to save some money. I save in the co-operative and I also have some money in the bank. We receive our dividends three times a year so we have money when we need them. (Jessie – interview).

Table 8.4: Schedule of receivables

Unit in PhP					
2009					
	Consumer store	Handicraft	Lending	2009	2008
Trade receivables	460,336.66	1,083,957.10	-	1,496,531.38	496,502.87
Less: Allowance for probable losses	47,762.38	-	-	-	-
<i>Net trade receivables</i>	<i>412,574.28</i>	<i>1,083,957.10</i>	<i>-</i>	<i>1,496,531.38</i>	<i>496,502.87</i>
<i>Receivables from members, officers and employees</i>		<i>1,410,072.87</i>	<i>-</i>	<i>1,410,072.87</i>	<i>1,731,638.09</i>
Scholarship fund		160,475.00	-	160,475.00	-
Staff/workers (including cash advances to member-producers)		517,972.74	-	517,972.74	953,015.96
Advances to officers and employees		296,820.22	-	296,820.22	331,817.22
Other credit services		434,804.91	-	434,804.91	446,804.91
<i>Loans receivables for personal and emergency needs (including kindergarten fund)</i>	<i>-</i>	<i>-</i>	<i>318,487.42</i>	<i>318,487.42</i>	<i>300,029.20</i>
Total receivables	412,574.28	2,494,029.97	318,487.42	3,225,091.67	2,528,170.16

Percentage distribution					
2009					
	Consumer store	Handicraft	Lending	Total 2009	Total 2008
Trade receivables	0	43%	0%	46%	20%
Less: Allowance for probable losses		-	-	-	-
<i>Net trade receivables</i>	<i>100%</i>	<i>43%</i>	<i>0%</i>	<i>46%</i>	<i>20%</i>
<i>Receivables from members, officers and employees</i>		<i>57%</i>	<i>0%</i>	<i>44%</i>	<i>68%</i>
Scholarship fund		6%	0%	5%	0%
Staff/workers (including cash advances to member-producers)		21%	0%	16%	38%
Advances to officers and employees		12%	0%	9%	13%
Other credit services		17%	0%	13%	18%
<i>Loans receivables for personal and emergency needs (including kindergarten fund)</i>	<i>-</i>	<i>0%</i>	<i>100%</i>	<i>10%</i>	<i>12%</i>
Total receivables	100%	100%	100%	100%	100%

I save PhP200 (AUD4.40) weekly in the *paluwagan* (a rotating savings scheme) in my village. I joined two groups of *paluwagan* where I contribute PhP100 (AUD2.20) each weekly. In one group, each member receives PhP2,500 (AUD56) on her scheduled withdrawal, while in the other group, the members get PhP5,600 (AUD124). My schedule is September and December, respectively. I'm saving for the on-the-job training of my eldest son next year. I guess it's alright but perhaps it's better to save in our co-operative (Arlene – interview).

Some of our producers invest their own money in buying their raw materials, some have their own *sari-sari* stores while others acquire agricultural lands (Ruth – interview).

To minimise administrative costs, Ruth said that the co-operative had streamlined its staffing to a minimum. From having four full-time officers overseeing the operations of the co-operative, two were made part-time, including the manager, while one full-time employee was retained.

Balancing the interest of co-operative members with the larger vision and mission

The co-operative practised the principle of one member, one vote but the leadership also recognised that only an informed membership could guarantee democratic governance. For example, while the leadership thought that it was beneficial to the membership to receive their patronage refund and dividends, the continued losses incurred by the store in the long run would decrease the amount they would receive. The handicraft business, with 99% dependence on one major buyer, might not be sustainable if it always subsidised the losses of the two operations. In terms of the overall composition of the co-operative, the 60 member-producers and working officers appeared to be the ones ensuring that all members received benefits equally. While non-producers did not receive patronage refund from the handicraft business, a portion of the interest paid on dividends came from it. Hence, non-producers might be asked to assist in the management of the store and lending operations rather than leaving it to the working officers.

While the auditor believed that the system of check and balance was in place, it required active involvement of members to ensure officers would not abuse their position. Thus, to strengthen their capacity to lead and participate in governing the co-operative, the management had called on the continuing education of members on co-operative values and principles coupled with a faith-based worldview. Furthermore, the management also encouraged member-producers to actively recruit more disadvantaged groups, such as their workers and other unemployed community members, who could be trained to weave pet toys products. With a new buyer, Ruth

expected higher bulk orders and so with an increased membership, more community members would benefit:

A co-op cannot remain at a certain level. We need the commitment of members to go another mile. And empowerment is also a process – we need to change values, worldview – to clarify the direction we want to take. Otherwise, we might get focused on earning for oneself and not think of the poorer members of the community anymore. The co-operative is part of the community so we always have to think of the larger community. That is the reason why we have a Monday devotion for at least 15 minutes so we don't lose sight of our vision and mission (Ruth – interview).

The next section presents vignettes of two dissolved CBE partners that used to supply big Philippine exporters and SAFRUDI and the inactive GBPs in Central Luzon.

Vignette 1: Dissolved Southern Luzon Handicraft Producers' Co-operative

The producers' co-operative, which was represented by a family enterprise owner, said that their co-operative was a casualty of economic globalisation. As a supplier to mainstream Philippine exporter-buyers, the co-operative was dissolved in 2005 after buyers had closed shop one by one. At its peak, the co-operative could have been one of the most successful, since it was already producing in millions per purchase order and was able to access the state-owned Land Bank of the Philippines for its capital needs. Hence, its reach must have been bigger than the flourishing Buri Handicraft Producers' Co-operative:

Before globalisation, we received production orders worth millions of pesos. We didn't experience problems accessing additional capital because we had good credit standing with the Land Bank of the Philippines. However, when our income started falling and was no longer sufficient to pay for our operations, the members decided to dissolve it (IndieCrafts family enterprise – interview).

After its dissolution, a few of the member-producers continued producing for the local market but on a smaller scale:

'Small' is in the range of PhP30,000 (AUD667) per order (IndieCrafts family enterprise – interview).

Being the former president of the co-operative and the direct contact of SAFRUDI, the family enterprise owner was the only one that became a supplier to the organisation. While it seemed that all member-producers had been negatively affected by globalisation, the workers and raw material gatherers living in remote communities were the most affected. Four of the former workers visited had reverted back to poverty and became beneficiaries of other NGOs and government programs for the poor, such as the World Bank-funded conditional cash transfer administered by the Department of Social Work and Development.

The next vignette presents the case of a defunct family enterprise.

Vignette 2: Defunct family enterprise

The defunct family enterprise was one of the top laminated capiz producers of SAFRUDI. However, according to Virgilio, he lost the opportunity to grow his business because of ‘mismanagement’ and ‘family dynamics’. Although he did not elaborate, perhaps living in the same compound as his parents, who were themselves capiz producers, might have triggered the ‘family dynamics’. Being a young entrepreneur, he appeared to be among the most creative and talented CBE partners:

From the samples I provided SAFRUDI, I used to receive a lot of purchase orders. I think I had the most number of POs back in 2005. A SAFRUDI staff who visited me said I wasted the opportunity of becoming a stable producer. However, I mismanaged my business and I had family issues—not concerning my spouse or children—that affected my business. I failed to deliver the products on time (Defunct family enterprise – interview).

Additionally, he also believed that stiff competition and lack of working capital constrained him from developing his business. Even with SAFRUDI’s 40% cash advance, he could not stretch his working capital and believed that the two-week time lag between payments did not help small producers:

My working capital was not enough. Even if SAFRUDI paid 40% down payment, I could not stretch it. I was not paid cash-on-delivery. Sometimes it took 15 days before I could be paid the cash advance or the full payment. For us small producers, 15 days is a long time (Defunct family enterprise – interview).

Like some CBE partners, he also resorted to borrowing from informal lenders to finance his capital requirements. However, the exorbitant interest rate at 40% per PhP100, 000 (AUD2,200) per month did not allow him to generate a surplus:

In one of the volume orders I received from another buyer who paid in cash, I worked out my financing by borrowing capital from a loan shark ... I borrowed PhP200,000 (AUD4,444) and paid back PhP280,000 (AUD6,222) but it made a lot of difference to be able to collect payment upon delivery. The PhP80,000 (AUD1,778) interest should have been part of my net income but without the financing I would not have been able to deliver on time (Defunct family enterprise – interview).

According to him, most capiz sub-contractors operating in the community borrowed from informal lenders to finance their operations. Banks would not loan them such a small amount and he did not know of any microfinance institutions operating in his community that provided loans for micro-entrepreneurs. Because of his constant delays in delivery, SAFRUDI was forced to drop him as a CBE partner:

When a buyer placed an order for one of my samples, SAFRUDI gave the PO to another producer. I wished SAFRUDI talked to me first before giving it to another producer. I think they gave it to the other producer because the owners quoted a lower price. On the other hand, I did not discuss it with SAFRUDI anymore because I had been negligent in my delivery. I could have insisted on getting the order but I thought why make a fuss when I was not even done yet with the previous order ... besides my cash position was tight ... The last time SAFRUDI ordered from me was in 2009 to produce samples which I also did not finish, again, due to lack of capital (Defunct family enterprise – interview).

To support his family, the defunct family enterprise owner joined a HMO (Healthcare Maintenance Organisation) provider. He said he would revive his business after saving capital from his commissions as area manager of the HMO provider.

Vignette 3: GBPs – Social entrepreneurship from the ground up

Although some management staff thought that GBPs and producers' associations lacked entrepreneurial skills to grow their handicraft business, it must be pointed out that the members were farmers first and handicraft producers, second. Handicrafts production was traditionally made during the long time lags between planting and harvesting to augment household income. Even when handicraft production became a profitable export-oriented industry in the 1980s and 1990s, farmers and weavers did not view it as a source of income that could supplant farming because it was subject to market demands that were beyond their control. While handicraft production might exceed income from agriculture during peak years, the latter remained their main livelihood. Thus, they could not be expected to transform into handicraft entrepreneurs because handicraft-making had suddenly become profitable. This was exemplified by GBP associations organised by the ISDP in the rice-growing regions of Central Luzon and the dissolved producers' co-operative in Southern Luzon:

In the 1990s, we produced seagrass throw pillows and stuffed animals but our handicraft-making ended in 2004 when our main raw material was exhausted and getting them from other towns was expensive ... We're still considering reviving production but most of the swamps where seagrass grew were transformed into rice fields. We're looking for alternative raw materials to use but we also have a hard time convincing weavers to create new product samples. They would rather concentrate on farming onions because handicraft is not a stable source of income. Even when we were still producing, the weavers always prioritised farming.

Once, the GBP was penalised for not meeting the quantity ordered for throw pillows. The number produced did not even fill half the space of the van that delivered the products to the SAFRUDI warehouse. I think GBP and SAFRUDI lost something like PhP24,000 (AUD533) for the order.

We also had problems maintaining the quality standards required. We had placemats rejected because the colour was not uniformly absorbed. These are still stored in our show room and we cannot even sell them locally. We displayed them in local trade fairs but buyers were not interested. We lost money as well in 1999 when a shipment of Christmas décor was infested with moulds. They were thrown into the ocean before they could reach

the port of destination. It was rainy season when the crafts were made so perhaps they were not fully dry (GBP core leaders – group interview).

While they might not be entrepreneurial in handicraft production, the GBPs seemed to show more entrepreneurial acumen in managing their community-oriented enterprises, such as self-help agricultural lending and drug-store retailing. Although the returns of the social enterprises might seem modest and the number of beneficiaries small (less than 20 members for each GBP with self-help lending groups), the programs appeared to be thriving because they responded to the members' objective needs and management was within their control:

In 2006, we thought of putting up a grocery or a rice trading business where members could buy their basic needs on credit. But then we thought that setting up a lending program might be better because members would be free to decide where to buy their needs or use their loans ... We started with PhP16,000 (AUD356) five years ago ... now our socioeconomic fund totals PhP75,000 (AUD1,667).

Whenever we have erring members, we send collection letters until they honour their debt. If they continued to ignore the letters, then we report them to the *barangay* (village) court as a last resort ... We already had six cases arbitrated by the barangay court so the members knew that we are serious. If they could pay their loans from microfinance, why couldn't they pay our group? (GBP core leaders – group interview).

Although the loan proceeds might not fully meet their needs, they provided a lifeline to members. In another GBP association, for example, loan releases were timed during the planting season, while payments and savings were made after harvest. By so doing, their capital build up was sustained and the loan fund increased. Thus, according to the GBP leaders, the agricultural lending program had transcended handicraft production as their business:

We have 16 members in the self-help group. The loan proceeds used to be the same for all of us: PhP4,000 (AUD89) for agriculture and PhP3,000 (AUD67) for multi-purpose ... but now active members can borrow more. The interest rate we charge is 3% for agricultural lending and 5% for the other. Every harvest season we save 15% of our net income to the association.

Although we are not organised as a co-operative, we also receive dividends at the end of the year. Our CBU is PhP500 (AUD11) each, while the membership fee is PhP50 (AUD1.11). We used the savings (PhP17000 or AUD378) from our handicraft project as seed capital ...

we now have PhP80,000 (AUD1,778) so the lending program has become our business (GBP core leaders – group interview).

Also, GBPs appeared to demonstrate that they could be innovative, too. Instead of financial credit, a GBP in another village provided rice loans to members and non-members alike to stave off hunger during the time lags between planting and harvesting:

The six founding members initially contributed one cavan (50 kilos per sack) of *palay* (unhusked rice) as capital contribution. The maximum share capital contribution per member is 24 cavans. Because the prevailing trading practice is three cavans of *palay* in exchange for one cavan of rice borrowed, the GBP pegged a lower repayment rate of 2 ½ cavans of *palay*, which is not very far from the traditional practice. In solidarity with other poor farmers, the GBP has extended the program to non-members but a member has to guarantee the loan (ISDP staff – group interview).

From the examples above, the GBPs demonstrated that SEs that were grounded in the members' needs and socioeconomic conditions might have higher chances of being sustained than SEs formed to meet external market demands. Despite its misgivings, SAFRUDI appeared to be more successful in helping GBPs transform themselves into self-reliant groups through their community-oriented social enterprises than handicraft production.

Conclusion

This chapter shed light on what happened to the inactive CBE partners after partnership with SAFRUDI had ceased. The Buri Handicraft Producers' Co-operative appeared to be a case of a SE FT that showed what true hybridisation as envisioned by social economy scholars could be. From the findings, it seemed that the co-operative was able to influence the business values of the private mainstream buyer and vice-versa. On one hand, through the steadfast commitment of the co-operative to its worldview, the buyer learned and practiced fair trade principles in his business dealings and seemed to have assimilated the values associated with SEOs, such as solidarity, trust, and respect for community values. In this regard, the private corporation behaved like one of the individual- or family-owned SE FTs in the North studied by Huybrechts and Defourny (2008) and may be classified as a hybrid for-profit corporation along Alter's (2006) hybrid continuum. On the other hand, the co-operative appeared to have learned to conduct its business in a more rational manner, put in place systems that seemed to empower the member-producers and reward them as well.

However, the experiences of GBPs and the dissolved Southern Luzon Handicraft Producers' Co-operative seemed to offer lessons to the thriving Buri Handicraft Producers' Co-operative on why it should not become dependent solely on its export handicraft business. While it seemed lucky that its wholesale buyer is a major distributor of pet toys, the industry is nevertheless subject to the vagaries of the market as their experience in 2008 showed. In the case of the defunct family enterprise, since handicraft production was household-based, family dynamics could affect the sustainability of a family enterprise. While an active family enterprise partner in the previous chapter appeared to benefit from the support of other family producers, the case of the defunct family enterprise seemed to be the opposite. The GBPs showed that small-scale community-oriented social enterprises might be more appropriate than those oriented towards meeting the demands of external markets. Their experiences appeared to be validated by the experience of the defunct Southern Luzon Handicraft Producers' Co-operative that was dependent mainly on the mainstream export market and whose workers appeared to have reverted back to poverty after the co-operative became a casualty of globalisation.

The experiences of GBPs and the Buri Handicraft Producers' Co-operative seemed to accord with studies of small community-based SEs that were created to meet the needs of members and marginalised groups. While leading members demonstrated leadership and entrepreneurialism, they did not seem to be the heroic or gung ho social entrepreneurs celebrated by high-profile SE networks or philanthropic foundations. Instead they were committed people who plodded on to ensure the survival of their members' livelihood. The literature on commodity producer FTs in the South also showed that while a fairer trading relationship has tangible economic and social benefits to members and the community at large, it was not enough to lift them from poverty. The case of the small coffee producers' association, the Región del Istmo – Union of Indigenous Communities of the Isthmus Region, and one of the primary organisations that pushed for the Max Havelaar fair trade label in 1988 comes to mind (Alvarado, 2009). As micro-level enterprises, the SEs could not be expected to provide member-producers and workers secure employment, but they provided a lifeline. In the case of the Buri Handicraft producers' co-operative, a lifeline that ensured that their children have a better chance in the future; and in the case of the GBPs, one that ensured there would be food on the table.

One of the distinguishing characteristics of Philippine SEs from developed countries is while volunteer labour and worker training for insertion in the formal labour market are important aspects of the social economy in the West, piece rate work and informal household labour define the type of employment generated by the SEs in Case Study 1. While SAFRUDI endeavoured to provide fair compensation accorded by law to piece rate workers, its CBE partners could only pay

fair wages but not other benefits. The CBE partners' household production system also clearly showed the interface between formal and informal organisations in the social economy, hovering between the community/household pole and formal private market pole. The next chapter discusses the findings of Case Study 2 of 13 NGOs and civil society networks engaged in social enterprise.

Chapter 9

Findings 3: NGOs and civil society networks engaged in social enterprise

This chapter presents the findings of Case Study 2 comprising 13 NGOs that combine the features of SEOs elaborated in Chapter 3 for market-oriented SEOs (10) and non-market SEOs represented by three civil society networks. The aim of Case Study 2 was to gain a greater understanding of SEOs and their social enterprises by triangulating their experiences with SAFRUDI and its CBE partners. The research questions for Case Study 2 were the following: (i) What social economy organisations identify as social enterprises and comprise the market-oriented subsector? (ii) What does it mean to be a social enterprise? (iii) How is this understanding of being a social enterprise translated into the VMG of social economy organisations? (iv) What opportunities are available to social enterprises?

In order to differentiate the research participants by economic activity, social enterprises engaged in marketing (n=5) were classified as social enterprise intermediary marketing organisations (SE IMOs), while social enterprises engaged in financing (n=5) were classified as social enterprise financial intermediaries (SE FIs). The civil society networks (n=3) were classified as social economy networks (SENs). The chapter begins with a profile of participants before discussing the findings.

Profile of Case Study 2 participants

Social enterprise intermediary marketing organisations (SE IMOs) (n=5)

SE IMOs provide the link between subsistence producers and the market. They are the buyer-consolidators of community produce and handicrafts that they in turn sell to other wholesalers and retailers. The oldest SE IMO was founded in 1973, while the newest began as a social enterprise project in 2006. Two were NGO subsidiaries; two were independent with their original mandates coming from CSO networks; while one was an NGO project. Although registered separately, these IMOs remain lodged within the larger development framework of their parent NGO or CSO network through interlocking directorates. This governance structure seemed similar to how for-profit SEs in the US (Alter, 2006a; Kerlin & Gagnair, 2009) and in SE FTs in the UK and EU

(Huybrechts & Defourny, 2008) were structured by their parent organisation in order not to confound their nonprofit status with their for-profit business activity.

The VMG of the SE IMOs showed that they were all committed to poverty alleviation, sustainable development, and the social and economic empowerment of community-based enterprises (CBEs) through fair trade principles (n=3) and the triple bottom line philosophy (n=2). They combined trading and non-trading services to assist their CBE partners, who produced a wide range of products. These included handicrafts, organic food, and semi-processed seaweeds that were marketed by the SE IMOs in the international market (n=4) and domestic market (n=1). The non-market-oriented services provided to CBE partners included subsidies through external grants and own-generated income, BDS, advocacy, and organising of community producers' associations.

Of the four that traded internationally, three were direct fair trade exporters, while one outsourced its international trade of dried seaweeds through private exporters. The three fairly trading SE IMOs were trying to get a foothold in the domestic market; while the domestic-oriented SE IMO was looking at the international market to increase its sales. Their CBE partners included an array of organisations that populate the Filipino micro and small enterprise sector: organic agricultural co-operatives, handicraft producers' associations, household-based women producer groups, family enterprises, and other social enterprises. Table 9.1 on p. 331 shows the profile of SE IMOs in Case Study 2.

Social enterprise financial intermediaries (SE FIs) (n=5)

As stated in Chapter 6, Philippine foundations have a distinct trait as opposed to Western foundations. Whereas in developed countries, foundations engage in philanthropic action through grant-giving and social enterprise incubation (Kerlin & Gagnair, 2009; Nicholls, 2010b), in the Philippines, foundations combine grant-giving, microfinance lending, and investment in social enterprises. Additionally, they also act as conduits for ODA and INGO assistance. These activities were certainly true for the SE FIs in this case study. Hence, they were classified as belonging to the market-oriented subsector rather than in the non-market-oriented subsector where Western foundations would be classified (Chaves & Monzón, 2007).

Of the five SE FIs, three were endowed with ODA money through international NGOs (INGOs); while two were funded through public debt-to-equity schemes. Three had social enterprise subsidiaries and two were stand-alone social enterprises of CSO networks. Between the late 1990s and 2010, the oldest and one of the biggest NGOs in the country, the CSO for Integrated Rural Development, had established several social enterprise subsidiaries, including a rural bank. The Foundation for Sustainable Local Economies acquired an existing coconut fibre

manufacturing company in 2006 and had investments in other coconut coir social enterprises. To sustain the endowment fund donated by the CSO Partnership for Sustainable Development, the CSO Co-operatives Federation transformed into a secondary-level co-operative in 1998. The Foundation for Equitable Development did not own subsidiaries but invested in existing social enterprises through equity investments.

The financial services provided by the five SE FIs included microfinance loan facilities, social enterprise credit facilities, guarantee funds and development deposits. Microfinance loan facilities were coursed through MFIs for re-lending to individual borrowers. Social enterprise credit facilities were loans extended to finance enterprise operations, such as working capital for family enterprises and farmers' co-operatives and bridge financing for SE IMOs. Guarantee funds referred to funds set aside to guarantee loans contracted by partner social enterprises from another financial intermediary. Development deposits referred to funds placed in co-operative banks and co-operative federations for re-lending to a specific project and clientele determined by the SE FI. Equity investment referred to investments made through the acquisition of shares of stocks of other social enterprises.

Similar to SE IMOs, the VMG of financial intermediaries were directed at alleviating poverty in marginalised rural communities. As well, SE FIs seemed to integrate their financial services through the sustainable development framework to which they adhered. Although each appeared to have its own distinct approach to sustainable development, closer analysis showed that it conformed to the triple bottom line approach for corporate social responsibility. For example, the Foundation for Sustainable Local Economies assessed social enterprises through its triple-bottom line (3BL) framework: economic development, social equity and environmental protection. Each of these dimensions had a set of indicators that social enterprises fulfilled to qualify for microfinance re-lending or development deposit placements. An example of an economic development indicator could be re-lending only to enterprises engaged in coconut industry development; a social equity indicator could include lending to associations where women's participation ranged from 30% to 50%, while an environmental protection indicator could be non-destructive production processes.

While they coursed funds through other social enterprises, two SE FIs were found to engage in direct lending to individual beneficiaries, such as OFWs and their families, salaried workers and organic agriculture farmers. These included the microfinance arm and rural bank of the CSO for Integrated Rural Development and the CSO Partnership for Sustainable Development. The CSO Co-operatives Federation lent only to member organisations but was also planning to go into direct lending through a microfinance program for fisher folk communities in Mindanao.

Non-market-oriented services included transfers and subsidies for BDS, market linkages and advocacy for social enterprise development and organic agriculture. The Foundation for Equitable Development funded basic social services, such as potable water, irrigation, education and health. For example, of the total financial outlay from 2001 to 2010, grants to social development accounted for 44% of PhP1.1 billion (AUD24.2mn). But, beginning in 2011, the foundation would concentrate on scaling up social enterprises by allotting 80% of its portfolio to SE development assistance and SE credit facility; while the remainder would be allocated to non-SE-related activities.

Although they earned interest income from their financial services and trust funds, the SE FIs leveraged their funds to access additional funding from INGOs, international aid agencies, private foundations and public sector agencies. For example, the CSO Partnership for Sustainable Development matched donor funding by 5:1, which meant that for every PhP5 received from financial donors, the organisation contributed an equivalent amount of PhP1 either in cash or in-kind. In 2007, the Foundation for Equitable Development matched the PhP80 million (AUD1.78mn) loan facility from a Dutch faith-based INGO with a counterpart fund of PhP20 million (AUD444000) to finance a five-year development program for Mindanao. Table 9.2 shows the profile of social enterprise financial intermediaries.

Social economy networks (SENs) (n=3)

Social economy networks represent the traditional civil society umbrella organisation. The SENs may organise at various levels, at the municipal, provincial, regional or national level. They usually engage in political, economic, and environmental advocacy where the combined voices of NGOs and people's organisations (POs) would be more effective. CSO Network, one of the biggest NGO-PO networks, was founded in 1990. It included regional networks of NGOs and POs. It supported social enterprises through policy advocacy and promoted concepts of social entrepreneurship and social enterprise among its members. The NGO-PO Social Enterprise Network, in existence since 1999 as an *ad hoc* network for NGOs and people's organisations, was funded by a European faith-based INGO. In 2010, the network was formally registered as a nonprofit, non-stock corporation to serve the needs of members that were transitioning to social enterprises. The Philippine Fair Trade Network was an advocacy desk of the Philippine Fair Traders' Association before becoming an independent network in 2010. The network served as the advocacy arm of fair trade organisations and accrediting body for fair trade labelling and certification. Table 9.3 on **p.** shows the profile of the SENs.

Table 9.1: Profile of social enterprises intermediary marketing organisations (n=5)

Name	SE arms and date founded	VMG keywords	Market-oriented activities	Non-market activities	CBE partners	Markets
1. Fair Trade Handicraft Producers' Association, 1973	PHA Fair Trade, 1998	Empowered community-based craft producers' associations, fair trade and sustainable development	Trading of handicrafts	Organising producers' associations, fair trade advocacy and capacity-building through BDS	Handicraft producers' associations, family enterprises and NGOs	International FTO buyers in Europe, North America and Australia
2. Organics Marketing Enterprise (began as an NGO project in 1992 and became a foundation in 2000 and an independent marketing and distribution corporation in 2003)	None	Community-based enterprises, local economic development of marginalised communities, value-addition and fair trade	Trading of organic rice, processed foods, such as jams, muscovado sugar, coconut sugar and coffee	Organic rice advocacy and capacity-building through BDS	Organic farmers' co-operatives, agrarian reform beneficiaries' co-operatives and producers' associations	National, including major supermarkets, fair trade shops, NGOs and other institutional markets, such as hospitals, corporations and school canteens
3. Philippine Fair Traders' Association, 1994	Fair Trade Village, 1997	Responsible and viable community enterprises, community of responsible Filipino entrepreneurs and poverty alleviation through fair trade	Trading of handicrafts, processed foods, organic rice, coffee, health products and wearables	Organising producers' associations, capacity-building through BDS fair trade advocacy and networking	Handicraft producers' associations, family enterprises, organic farmers' co-operatives, micro and small entrepreneurs (MSMEs)	International FTO buyers and national buyers, including upscale retailers, smaller supermarkets, fair trade shops and NGOs
4. Kanlungan Fair Trade NGO, 1998	None	Genuine total human development, justice, empowerment, self-reliance, sustainability of natural resources and fair trade producers	Trading of dried mangoes, handicrafts and other processed foods	Capacity-building through BDS, fair trade advocacy, land reform advocacy	Organic farmers' co-operatives, women's groups, producers' associations, family enterprises and other FTOs	International FTO buyers and local consumers through Fair Trade store
5. Coastal Resource Development NGO, 1983	Fishpond and prawn hatchery and organic aquamarine IMO, 2006	Empowered, self-reliant coastal communities, abundant and diverse coastal and marine environment	Trading of prawn fingerlings and dried marine seaweeds	Community-based coastal resource management projects, community organising and capacity-building through BDS	Fishers' associations, women's groups and organic seaweed producers' associations	Philippine seaweed exporters, local fish traders and fishpond owners

Table 9.2: Profile of social enterprise financial intermediaries (n=5)

Name	SE arms and date founded	VMG keywords	Market services	Non-market services	Financial partners	Clientele
1. CSO for Integrated Rural Development, 1952	Rural bank in Northern Luzon (1999), alternative health insurance (1999), intermediary marketing unit, (2001), credit co-operative (2002) and microfinance institution (1999/2010)	A world of equity and sustainability, integrated area development, rural communities and development within the environment's carrying capacity	Rural banking, microfinance, marketing of organic agricultural produce and handicrafts in the domestic market, alternative health insurance, eco-tourism and travel agency	Integrated area development projects, advocacies on local economic development and good governance, leadership training of local government officials, subsidies and capacity-building through BDS	Development aid agencies, public sector agencies, INGOs	Organic farmers' co-operatives, OFWs and families, producers' associations, MSMEs, agrarian reform beneficiaries' co-operatives, women's groups, salaried workers
2. CSO Partnership for Sustainable Development, 1986	In-house microfinance program	Economic empowerment, enterprising rural poor communities and sustainable agriculture	Livelihood microfinance loans, agricultural production loans, guarantee loans and equity investment in social enterprises	Grants, advocacy on organic agricultural development, organising networks and capacity-building through BDS	INGOs, public financial institutions	NGOs, MFIs, peoples' organisations, organic farmers' co-operatives, marine seaweeds producers' associations
3. Foundation for Sustainable Local Economies, 1995	Coconut coir manufacturing company acquired in 2006	Just, sustainable development, empowered communities, respect for cultural diversity, integrity of creation and fullness of life and triple bottom line (social, economic and environment or 3BL) SE model	Microfinance loans, social enterprise loans, guarantee loans, development deposits and equity investment in social enterprises	Grants, capacity-building through BDS and advocacies on 3BL SE model, local economic development and coconut industry reform	INGOs, international aid agencies	NGOs, MFIs, coconut farmers' co-operatives, peoples' organisations, MSMEs, social enterprises, women's associations
4. CSO Co-operatives Federation, 1998	None	Empowered marginalised sectors and sustainable development represented by 4Ps (people, planet, profit and peace)	Bridge financing, microfinance and institutional-building loans,	Grants, capacity-building through BDS, advocacy on 4Ps of sustainable development	Financial institutions from public and private sectors, INGOs, other SE FIs	Co-operative members, which include NGOs, peoples' organisations, foundations, primary co-operatives and MFIs
5. Foundation for Equitable Development, 2001	None	Poverty-reduction, sustainable development and social enterprise	Microfinance loans, social enterprise loans, guarantee loans, development deposits and equity investment in social enterprises	Grants, capacity-building through BDS and advocacies on social enterprise development through triple-bottom line principles	INGOs, international aid agencies, public and private sector financial donors	NGOs, peoples' organisations, co-operatives, MFIs, social enterprises, MSMEs

Table 9.3: Profile of social economy networks (n=3)

Name and year founded	SE arm and date founded	VMG keywords	Market services	Non-market services	Donor partners	Partner organisations
1. CSO Network, 1990	None	Influence public policy, leadership in civil society and effective social development work	None	Policy advocacy and partnership building in the public arena, building capacity and accountability of member networks and organisations	INGOs, international aid agencies, public and private sector financial donors	Regional-level networks of NGOs and people's organisations
2. NGO-PO Social Enterprise Network, 1999	None	Vibrant and sustainable people's enterprises at the core of a democratized and sovereign Philippine economy	None	Business development services, social enterprise advocacy		NGOs, peoples' organisations, co-operatives and social enterprises
3. Philippine Fair Trade Network, spun off from Philippine Fair Traders Association in 2010	None	Common voice for Philippine fair trade movement in Asian and global fair trade networks	None	Fair trade certification and labelling, advocacy	Asian and global fair trade networks	Fair trade NGOs, producers' associations and family enterprises

Discussion of findings

Perceptions of the nature and role of social enterprises

As already contended, from the perspective of the social economy framework and the literature on social enterprise from around the globe, 10 of the research participants met the criteria for market-oriented SEOs. However, from their perspective only six perceived themselves of being SEs. All five of the SE IMOs identified as social enterprises, while one SE FI did so with qualification. The other SE FIs considered themselves ‘financial donor’ (n=1), ‘social investor’ (n=1), ‘enabler’ (n=1) and ‘socially entrepreneurial NGO’ (n=1). Although everyone seemed familiar with the SE discourse, they seemed uncertain of the status of NGOs and CSO networks doing social enterprise development as SEs. Even financial donors added to the confusion by giving mixed signals as to the role of NGOs when funding stopped.

However, all research participants appeared to view CBEs as SEs. They also seemed to view SEs as enterprises that trade products and services in the private market sector, whether these were established by NGOs, POs, and other organisations as long as they adhere to a social philosophy, such as fair trade and 3BL. The main purpose of the SE is to generate profit and ensure the financial independence of its parent NGO or PO to achieve its long-term social vision. Thus, it seemed that SE FIs or NGOs that provide services to SEOs for a fee and generate income out of these services are not SEs because they do not operate in the mainstream market sector. These findings were based on the discussions below.

Social enterprise through and through but...

The six research participants believed they were social enterprises because, as Rafael noted:

We’re a social enterprise through and through. We don’t have owners, we’re non-stock, non-profit. But, as a social enterprise, we’re geared towards sustainability. At some point we see ourselves as generating profits out of the things that we’re doing to support the things that we’re going to do ... to expand. I’m exaggerating but if we could earn a hundred billion a day, we could do another billion-peso worth of services because that’s not supposed to go into anyone’s pocket (Rafael, Philippine Fair Traders’ Association – interview).

However, they differentiated themselves from the ‘business with a social purpose’ discourse promoted by advocates of the social enterprise concept. For example, from the perspective of fair trading IMOs, fair trade is ‘more in-depth’ and ‘more holistic’ than newly-emerging social

enterprises because they had advocacies and fair trade principles to guide their business practices. As Luisa explained:

Definitely, we're a social enterprise. But in fact fair trade is more in-depth than the social enterprise context ... at the global level we don't discuss so much on social enterprise. We think more on: 'What are the standards of fair trade?' ... We're not doing CSR, which is what business people will tell me whenever I explain the fair trade concept in business gatherings I'm invited to speak. For them, being a socially-responsible business is CSR ... but we're not into feeding or planting trees. We're more than that ... we look at the whole supply chain, the socioeconomic backdrop, the political situation of the country and how we can contribute in addressing poverty through trade. So, we adhere to the 10 standards of fair trade (Luisa, Kanlungan Fair Trade Group – interview).

Carlos believed that fair trade organisations represented the 'first wave' of social enterprises, but they were not generally seen as such, since they never referred to as 'fair trade enterprises':

I think about one or two years ago when the social entrepreneurship wave emerged, we've been asked if we were social enterprises. I said: 'In a way, yes all fair trade organisations are enterprises, they are social enterprises'. In fact when you look at it, fair trade is more holistic compared with the newly developed social enterprises. The new ones, they would just stick to one particular issue, for example, street children. Whereas in fair trade it integrates a lot of issues already women, gender equity, safe workplaces, fair pay. So when they ask me: 'Yes, fair trade organisations are social enterprises' (Carlos, Philippine Fair Trade Network – interview).

Other research participants (n=5) alluded to past development initiatives, even predating fair trade, that were not labelled social enterprises. Prior to the rebranding of their activities within social enterprise terms, agricultural production, livestock-raising or handicraft production were variously referred to as 'income-generating projects', 'income-generating activities', or 'livelihood projects'. Dante from the CSO Network said:

Some of my older colleagues say, 'We have been doing that already for a long time – business with a social purpose. We have been marketing back then in the 60s, co-operative marketing, co-operative rice milling. Those were social enterprises although we didn't call them social enterprise. Environment was added lately in the 1980s and 1990s. They were called community-based economic projects, livelihood programs for the poor ... like when

I was still working with coconut farmers in 1993 we had carabao-dispersal, goat-dispersal or coconut propagating projects (Dante, CSO Network – interview).

Social enterprise but...

Gabriel from the CSO for Integrated Rural Development also said being classified as a social enterprise was a ‘belated’ occurrence. As with all NGOs established prior to the emergence of the social enterprise discourse in the mid-1990s, the CSO employed a development approach that included enterprise – income-generating and business-like – activities. He believed the addition of the term ‘social’ and the triple bottom line made it ‘more complicated’ and difficult to practice. But, due to donor pressure, the organisation was forced to incorporate market-oriented activities in its development program through the establishment of various subsidiaries. He doubted whether the NGO could indeed be called a social enterprise since the subsidiaries they founded had yet to pay a return on their investments. As he elaborated:

Now, from that definition: ‘Are we a social enterprise, or any other similarly situated NGO for that matter?’ I’m not so sure about that ... the linchpin is [is] there ... some kind of enterprise that is a business? An NGO usually starts with certain causes not business. So there’s already a difference but we didn’t start that way. The enterprise that is business came in later and, when it did, it formed part of our overall program. In that sense, then, that makes us a social enterprise, belatedly. And since we are already, we are more in the two bottom lines of the social enterprise. What is its linchpin? Is it really profiting, making money? We’re not into that, we came from a different direction. There are probably other NGOs trying hard to be, as we are trying hard to be a social enterprise ... For example, when we set up the MFI [in 2010], we just built up on what is already there ... consolidating the various credit and savings groups organised since 1999. In other words, we reinforced our investment ... They promised us that the money would earn if we loaned them ... it’s an internal lending. We loaned them the money, we took a risk. They were boasting that they could make the money earn more than we would get if we just deposited it in the bank ... so we said, ‘Okay, let’s see because they promised us a higher income – 12% and more as interest income’ ... and when they presented their numbers, it seems to be convincing because they based their figures on how microfinance operates and they said that they even quoted low percentages. We saw the figures, but we cannot collect yet. They’re asking for a grace period. But they are recording the earnings in their book so we know we are earning. As for the rest, like our organic and trading [arms], the promise of

those who run these [laughs], I have yet to see the colour of money ... the profit outside of what we have invested (Gabriel, CSO for Integrated Rural Development – interview).

Enabler, donor, social investor, and socially entrepreneurial NGO

Similarly, the four SE FIs were hesitant to identify as social enterprises and would rather be known for their function as enabler, donor, social investor and socially entrepreneurial NGO even though they had more viable business operations than the SE IMOs. As examples:

No, we're not a social enterprise. We have an endowment fund and we use the income of the fund ... so we're like a ... 'donor' in the sense that we provide funding and in the past nine years our thrust has been poverty reduction ... Our program areas include basic services, livelihood and employment and capacity building and governance. So ... over the past nine years, about 60% of our funds have gone into the livelihood and employment category, which includes microfinancing ... which means we provide wholesale funds. A co-operative, for example, in South Cotabato, would borrow for their microfinancing. So we are more or less like a bank in that sense. Then the second category of the livelihood and employment area is in 'enterprises'. In the past it has been micro-enterprises, but we are now more into co-operatives and NGOs ... running sustainable agriculture-related enterprises. So for instance they need operating capital for their rice or rubber trading. Out of our total loan portfolio of about PhP600 million (AUD15mn) in the past nine years, I think about two-thirds went into microfinancing, while one-third went into the rest (Criselda, Foundation for Equitable Development – interview)¹².

I think we're not directly a social enterprise. Rather, we are an enabler. We don't directly mentor social enterprises, but we support and assist organisations engaged in social enterprises. Yes, interest income from our lending program sustains our organisation. That's exactly what we wanted to happen. That's why we shifted from grants to loans because if we continued with grant-giving the organisation wouldn't be sustainable. The income we earn from the lending activities is ploughed back to the operations and, as a co-operative, we also share the profit to the members through dividends and patronage refunds (Rosalinda, CSO Co-operatives Federation – interview).

¹² Table 9.4 (p. 305) shows the loan portfolio of the Federation of Equitable Development from 2001 to 2010.

Mixed signals

Although all research participants agreed that community-based enterprises owned and managed by marginalised sectors were social enterprises, the status of NGOs and SE FIs remained unclear. It seemed that the subsidiaries they established to support CBEs and generate income for the NGO could be considered social enterprises but not the NGO itself. While NGOs were pressured by financial donors to become sustainable by establishing social enterprises, other donors believed that NGOs should not engage in market-oriented services since their role was to provide BDS whereby they could generate income by charging fees. This donor stance seemed to give members of the NGO-PO Social Enterprise Network ‘mixed signals’, since it would take some time for CBEs to pay for BDS rendered by NGOs. Hence, donor subsidies would still be required. As Lorna elucidated:

According to funding agencies, the role of NGOs would be as supporter outside the value chain, like the government and the bank or any other private organisation. The NGOs will be providing the BDS. But they’re also asking about our sustainability ... I wonder: ‘What’s that? Mixed signals ... so annoying.’ What they’re saying is, this is the value chain: here are the actors, the activities – the producers, communities, local traders, consolidators, processors, distributors and then the market. So, if the partner communities can already afford to pay the BDS, then the NGOs can ask for a fee for services rendered. I thought to myself, ‘But that is also a form of business’. So, the FAs (funding agencies) want the NGOs to be sustainable ... but the question is who will be paying for that, the POs? It’s not going to happen soon unless the co-operative is already big and its income is already by the millions, but it is not (Lorna, NGO-PO Social Enterprise Network – interview).

Since financial intermediation was a form of BDS, this could also explain why SE FIs did not identify as social enterprises. However, as Lorna pointed out, a BDS was ‘also a form of business’. Thus, SE FIs were themselves social enterprises.

Given that the microfinance industry was already saturated and the BDS consultancy mature, it seemed smaller NGOs and latecomers would have to find their own means to sustain their development work:

The competition is very stiff. So if you’re an NGO that wanted to earn your keep through BDS, you would have to compete with the academe, consultants or consultancy firms. At the same time, the NGOs organise co-operative social enterprises at the ground. So I wonder how it’s going to be ... I wondered where shall we get the [resources] ... I studied

the BDS and I thought it's not for NGOs. Although it's possible to provide BDS, it's still not enough to support them. They will still need grants for their programs and services ... they even subsidise the business training of POs (Lorna, NGO-PO Social Enterprise Network – interview).

But, since funding was dwindling, the network believed that NGOs would inevitably engage in market-oriented services to sustain their development work:

Naturally, you would think of engaging in a business and you would look at your core competencies (Lorna, NGO-PO Social Enterprise Network – interview).

Indeed, as the section below demonstrates several NGOs had already done so.

Experiences of social enterprises

This section presents the experiences of the 13 SEOs as it relates to the second research question exploring what it means to be a social enterprise. The first subsection discusses the experiences of SE IMOs in the international FT market and their efforts to crack open the Philippine FT market (n=3); the experiences of a SE IMO that trades organic agricultural produce in Philippine supermarkets (n=1); and a SE IMO that exports semi-processed seaweed products in the international market (n=1). The second sub-section tackles the experiences of SE FIs (n=5) as financial service providers to MFIs, SEs, and CBEs, primarily, and as grant-givers to POs, secondarily. The third sub-section discusses the views of SEO networks (n=3) as regards the experiences of their SE members.

Navigating the domestic mainstream and FT markets: Experiences of SE IMOs

The SE IMOs varied in terms of market and industry subsector but there were similar aspects that limn their enterprise experiences. There were *the practice of buying high but selling low; the challenge of cracking open the domestic market for ethical goods, withdrawal of social premium for FT products, borrowings to make up for diminishing external grants; living with unfair supermarket business practices, and non-business orientation of CBE partners*. These findings are discussed below.

Buying high, selling low

To generate income from their trading operations, SE IMOs added a mark-up to the price of products sold to FTO buyers and domestic supermarket retailers. This could range from 15% (Ricardo, Organics Marketing Enterprise – interview) to 30% (fair trade IMOs). This mark-up was considered low compared to mainstream companies:

Our mark-up is only 30% compared with 40 to 50% mark up of others. Some businesses even charge up to 70% margin. We really only have a small margin (Luisa, Kanlungan Fair Trade NGO – interview).

Although this was contrary to the business principle of ‘buying low and selling high’, community producers benefited from selling their produce to SE IMOs. However, the practice seemed to be unsustainable. Four SE IMOs were found to barely breakeven and seemed to be relying on their accumulated surpluses to cushion their losses. As the example of the Organics Marketing Enterprise showed:

We buy the communities’ products at a high price so that they will get a good income but we sell at a lower price. The margin is small that we don’t really profit from their products ... we are trying to fix that now. If we kept on doing it, we would perish ... the company would die. (Ricardo, Organics Marketing Enterprise – interview).

Of the five SE IMOs, the Fair Trade Handicraft Producers’ Association was the only one whose profits were more than enough to sustain its operations. However, like other SE IMOs, it was not averse to accessing grants from external donors to fund social development programs for its CBE partners.

Cracking open the domestic market for ethical goods

Due to the declining export market for FT handicrafts, fair trading SE IMOs were found to be shifting their marketing strategy by creating a domestic market for ethical goods. Since 2008, SE FTOs belonging to the Philippine Fair Trade Network, such as the Kanlungan Fair Trade NGO and Philippine Fair Traders’ Association, had teamed up in opening FT retail stores in several urban centres across the country. They seemed to be following the approach taken by Northern FTOs when they established world shops in various European countries:

So we are establishing a chain of fair trade shops all over the Philippines ... it’s easier said than done ... but we have four fair trade shops at the moment because we don’t have all the money in the world. But if we have more money, we’ll put up a shop in every province, in every district (Rafael, Philippine Fair Trader’ Association – interview).

Eighty percent of our sales are from the export market and 20% from the local market. That’s why we’re trying to build the domestic market with other fair trade groups ... like last year we had a sales target of PhP1.8 million (AUD40,000) for our local fair trade shop and we reached PhP1.75 million (AUD38.800) ... we just needed a little bit more push,

but it's really hard work. The store sells not only our products but all the products, such as handicrafts and processed food, from different producers and FTOs all over the Philippines ... so that's how we work in the domestic market (Luisa, Kanlungan Fair Trade NGO – interview).

Another shift in their strategy was the move towards what Carlos termed a 'double claim'. They believed that by putting both FT and organic seals on products that met FT and organic certification, their potential market would be bigger. They could sell to both fair trade and healthy lifestyle consumer niche markets:

We're looking into merging the two – organic certification and fair trade certification because there is a growing demand for double claim. It's no longer just a singular claim, the trend now is double claim for fair trade and organic certification that buyers demand (Carlos, Philippine Fair Trade Network – interview).

We're into organic agricultural program development ... It's part of the, well, it jibes with the environmental protection principle of fair trade. Actually, organic and fair trade are closely intertwined (*magkadikit ang pusod ng organic at saka fair trade*). By the natural scheme of things, organic and fair trade are twins (Rafael, Philippine Fair Traders' Association – interview).

The expectation for a bigger slice of the market appeared to be based on the notion that by putting a seal on their products, the market would crack open. But, Northern FTOs claimed that FT labels for handicraft do not really make a difference since most are sold in FT shops. Nevertheless, they support Southern FT producers' initiatives to append the FT mark on their products as a form of solidarity (Geffner, 2012). In addition, studies in the North regarding consumer understanding of various ethical labels showed that they might not be as discerning because they disliked spending time by reading through competing labels (Davies et al., 2010; Nicholls & Opal, 2005). While there seemed to be no study on consumer behaviour in the Philippines, it could be assumed that Filipino consumers would likewise be as neither discerning nor having the time to keep them informed while shopping in the supermarket. Although certification may have some advantages for first adopters (Parvathi & Waibel, 2013), it has its critics (De Neve et al., 2008; Raynolds & Wilkinson, 2007; Rosenthal, 2012) who asserted that costly certification and stringent audits penalise farmers and producers on one hand, while corporate buyers can get away with minimum adherence to FT standards, with implicit consent from Northern consumers, on the other.

Independent of the above initiative, the Fair Trade Handicraft Producers' Association was assisting its partner producers in setting up their own retail shop in the National Capital Region:

We're moving towards formally putting up a fair trade shop in Quezon City so that our producers will stop looking at export. We piloted the retail shop three years ago and the location seems to be good. Three of our partner producers from the province are now supplying the store (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

While fair trading SE IMOs were creating a domestic ethical market, the domestic-oriented Organics Marketing Enterprise was looking at the export market because it seemed to offer better terms of trade:

One of our plans is to broaden our market. Right now we are in the mainstream like the major supermarkets ... we aim to go into exporting [for the coconut sugar]. But we'll prioritise the national because our study showed that before you go into export, you should have a national presence first because the export business is very risky. There are no returns once you're products are rejected (Ricardo, Organics Marketing Enterprise – interview).

Marching order: No more social premium

Given the frailty of the FT handicraft market in the North and the withdrawal of social premium for FT products, the Philippine Fair Traders Association seemed to be taking a pragmatic approach to sustain its operations. Because of what Rafael called the 'marching order' from European FT groups, Southern FT producers had to compete on a value-for-money basis:

The truth is, even in Europe, it's still about value for money. We still have buyers who stick to the old social premium but the mainstream in fair trade ... We can call them mainstream within the fair trade, the information we get is: 'Oi, no more social premium on fair trade. You have to compete with the mainstream in terms of quality and price'. That's our marching order now. That was not the case five years ago. We're still working on the old concept of alternative trade but eventually, the fair trade shops in the Philippines will have to sell itself on that principle, too ... same price, same quality but since it's fair trade, you buy from us. It's better for me now to work along that line rather than keep on convincing people to patronise this product because it's fair trade. Well of course, we'd still appeal to their emotion, 'Please, please, please'. But then maybe not as we used to ... it's no longer the marching order of the day (Rafael, Philippine Fair Traders' Association – interview).

To compete, the organisation would not promote as avidly as before the 10 fair trade principles in reaching out to the larger number of Filipino MSMEs. Instead, the organisation would incentivise fair trade adherence through the fair trade 'brand', i.e., the common fair trade seal or logo that all fair traders would carry on their labels. The 'brand' that is assumed to give them an edge over their competitors:

Right now we are borderline ... erasing our old orientation. Whereas before we're always mouthing, 'Fair trade, fair trade', now we say, 'As long as it's a Filipino SME that practices some CSR (corporate social responsibility) that's relevant to our development work, lump them together into one vibrant SME market in the Philippines'. It's no longer just that one mission. In the past, we demanded full adherence but we have learned to appreciate how things really are. It's better to take the position of being liberal ... but in our minds, we're full force, really concentrated on fair trade principles compliance. Our bargaining chip is the brand. They have to be full fair trade practitioners so they can get the brand, which will make their product distinct from the others. So their dream will be to get that brand (Rafael, Philippine Fair Traders' Association – interview).

Rafael believed, too, that by reaching out to the larger MSME sector, the organisation would be more effective in influencing government and in ensuring the organisation's sustainability:

Right now we're diversifying our funding sources. We think the most stable will be the local sources. In fact at the moment we have an agreement with DTI (Department of Trade and Industry) by way of PPP (public-private partnership). So we will do some of the things that they're mandated to do like developing the market for SMEs, which we're doing as our mandate, too. Now, what is in exchange for that? They will help us find means to be sustainable and to raise money. They will endorse us to some of their programs which we will implement without corresponding financial assistance (Rafael, Philippine Fair Traders' Association – interview).

Furthermore, the organisation thought that the partnership with the Department of Trade and Industry offered a wider platform for raising fair trade awareness among the MSMEs and the Filipino consumer:

It's not setting aside ... we have expanded in fact because that's the whole Philippine SMEs ... if we limit ourselves to fair trade only, we won't be able to engage the whole government, the whole DTI to be our partner. Well the bigger part of that will be

educating the market to patronise fair trade products and even non-fair trade products as long as they are made by Filipino SMEs. Between a non-branded, non-fair trade certified and fair-trade certified, the enlightened consumer will of course patronise fair trade products (Rafael, Philippine Fair Traders' Association – interview).

Thus, notwithstanding the limited reach and impact of the fair trade movement in the past two decades, the Philippine Fair Traders' Association appeared optimistic that working within the mainstream market and establishing parallel fair trade stores would be more effective than transforming unfair trade practices through political advocacy and lobbying:

Being able to comply with three of the 10 is better than being able to comply with none at all. As a development person, and as a social enterprise, it's a challenge for us to evangelize (laughs) to spread the gospel of fairness and justice to everyone. If we do our work well, then at some point, we'll reach the goal of keeping them full-scale fair trade practitioners. But now, we'll limit ourselves to the three pillars: we'll help the producers become more efficient and effective; we'll ask him or her to use fair trade principles; and we'll give some assistance. We'll link them to the market, to the mainstream or to the market that is being developed by us through the fair trade stores (Rafael, Philippine Fair Traders' Association – interview).

Diminishing grants, increasing loans

Since funding had dwindled, Organics Marketing Enterprise and Kanlungan Fair Trade NGO contracted loans in lieu of grants to finance their operations as well as to subsidise their CBE partners. Both had medium-term loans from a Dutch co-operative with a Philippine branch, SE FIs and other supporters. The Organics Marketing Enterprise had devised a social enterprise financing facility with borrowed funds to assist cash-strapped agricultural producers so they could produce in volume. In 2011, its debt stood at Php24 million (AUD533,300) and seemed to saddle the organisation with interest payments and principal amortisation it could not afford to pay. As Ricardo explained:

We had a former colleague who thought up the social enterprise financing facility. Although the community producers can produce, they don't have the capacity to produce in volume because they lack capital. Then they're also scared of applying for loans ... you know how communities are in rural areas. The scheme was to borrow funds to lend to the communities. Instead of cash payment, the community producers paid us in kind through the products they sold. But the problem with the concept was we got caught up in interest

payments. When we saw that in 2010 ... that we were paying PhP4 million (AUD88,800) for interest alone, we cut the scheme because we would lose our resources. That's just interest but we have started paying the amortisation ... so it eats up most of our income. The Dutch co-operative could actually buy us out. It's like a bank ... it has what it calls restructuring. During our last meeting with their representatives, they suggested not to do it because it would give us a bad record. In case we needed to borrow again, the approval process might take longer. Since it came from them, we didn't ask for restructuring (Ricardo, Organics Marketing Enterprise).

Additionally, when payments from domestic supermarket retailers were delayed and cash flow became tight, the organisation borrowed bridge financing from the CSO Co-operatives Federation:

Because we are an NGO, we cannot access loans from private banks. So it's from partners like them [CSO Co-operatives Federation] that we access loans. You know supermarkets ... the terms in the contract state 30 days but in reality it's not followed. Sometimes it takes up to 120 days ... so the money sleeps in the supermarket ... our cash flow is affected (Ricardo, Organics Marketing Enterprise – interview).

However, other factors related to oppressive business practices of supermarkets and community producers' non-business orientation (both discussed below) seemed to have made bridge financing a permanent solution rather than a temporary measure:

We try to be a good payer but we have what is called drawdowns. We drawdown when we really cannot pay ... we have difficulties in the cash flow. That's one aspect we are working on ... Right now, we really depend on credit ... on loans (Ricardo, Organics Marketing Enterprise – interview).

For its part, the Kanlungan Fair Trade NGO had borrowed USD78,000 (PhP3.5mn) from the Dutch co-operative to build its 320 square-metre processing plant in 2001. Similar to Organics Marketing Enterprise, it also resorted to bridge financing from local supporters and Church-based groups to solve cash flow problems from time to time. According to Luisa:

We started in 1998 with a very small grant – PhP35,000 (AUD778). So, in 2001 we borrowed from the Dutch co-operative to build the mango-processing plant. Sometimes we borrow from our supporters in the city, from Church groups when we have tight cash flows and to enable our shop to buy more stocks. We're able to pay our loans but we negotiate for a staggered payment plan (Luisa, Kanlungan Fair Trade NGO – interview).

Although Kanlungan Fair Trade NGO appeared to sustain itself, it did not generate enough surpluses to finance its expansion. Hence, it depended on subsidies from FTO buyers and modest funding from donors for some of its operational requirements:

We got a grant last year from Italy and Japan to renovate the plant site. It's not really for capitalisation; it's more for improving the capacity of the plant. We're also planning direct selling ... Our dream this year is to have a small van where we can put our fair trade logo, do deliveries and at the same be our mobile store. And hopefully we can access funds ... I'll try my best to access funds this time because we don't have enough to buy additional equipment or facilities (Luisa, Kanlungan Fair Trade NGO – interview).

It seemed, however, that cash flow problems are not limited to Philippines SEs. On one hand, the literature on FT showed that importing SE FTOs experience cash flow problems, too, due to advance payments to Southern producers and credit extended to wholesale buyers (Jones, 2012). On the other, as discussed in Chapter 3, social enterprises like MSMEs are not considered profitable by commercial financial institutions; hence, their lack of access to affordable credit constrains enterprise growth.

Although three of the SE IMOs faced uncertain external funding, the Fair Trade Handicraft Producers' Association, whose profits were more than enough to sustain its operations, appeared to attract other development organisations due to its perceived entrepreneurial acumen. And, the organisation seemed not averse to getting grants or subsidies from them that would allow it to take some risks and be a social enterprise model for partner CBEs:

This is the time when I'm thinking of getting funding. Why shouldn't I when I can have it, right? But the organisation operates on a very small ... we are self-sufficient. Honestly, if we would like to be self-sufficient, we could, because when I talk just about the investments, it's enough. Maybe I like the thought of taking a risk that I can calculate and be innovative ... We're an NGO but we don't move like one. Meaning, we don't rely on dole, on funds, but we always welcome ... that's why a big business-related NGO is coming and maybe we would also forge partnerships this year [2011] with two international NGOs. But I won't focus so much on partnerships because my direction is really business; getting into a partnership is only secondary for me. I really want to show our producers what they should do. And that our organisation should be their model and they should aim to become like us in their community (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

Among the risks that the Fair Traders Handicraft Producers' Association was planning to undertake was the construction of a one-stop service facility close to the location of its major suppliers and the full operations of the fair trade retail store in the National Capital Region. The one-stop service facility was intended to address issues related to quality control that bedevilled handicraft producers, while the fair trade shop would provide producers access to the domestic market.

At this point, we are moving forward to two great projects. I call it 'great' because it will involve risks. It will require a lot of effort, planning and also resource. We're putting up a multi-purpose service centre in Bicol. It's a building that would mean storage for raw materials, production, [and] quality control. Another is the fair trade shop so that producers will not continue looking at export (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

As discussed in Chapter 6, the turn to SE as a development approach was a donor-driven agenda. The SEs established by the Coastal Resource Development NGO seemed to be classic examples of external actor-determined projects that commentators decry. It seemed that the Coastal Resource Development NGO's forays into SE ventures were heavily financed by grants without recourse to the communities' objective situation and needs. Since the mid-1980s it had had a string of microfinance programs for coastal communities that had failed, but these failures had not discouraged donors from financing its social enterprise ventures in the mid-2000s:

In 2006 or 2007, we said that Coastal Resource Development NGO would go into livelihood development for sustainability. We've been thinking about it for a long time because what else could you do when donors have been leaving and telling you to go into business? Prior to the business centres, we invested in a rice trading business but it closed down. We also engaged in micro-credit in 1987 for the income generating projects (IGPs) of coastal communities only to lose a lot of money – PhP1.5 million (AUD33,300) in Eastern Visayas and PhP1.3 million (AUD28,890) in another region. And they never took off as viable businesses ... real businesses. They were like 'now-you-see-it, now-you-don't businesses'. They thrived for only six months and then disappeared because they were really small in the first place (Janice, Coastal Resource Development NGO – interview).

The organisation invested in three social enterprise projects also called 'business centres' that included 31 hectares of fishponds, a prawn hatchery facility and seaweed production and trading. The business centres were funded by donor money and the organisation also invested its own savings. However, since they were implemented without appropriate business preparations, their

performance was mixed. The fishpond had been losing money and might be closed down. The prawn hatchery did not respond to the economic needs of fishers. While the seaweed production and trading showed the best potential for the communities and the organisation, its modest income could pay for the salaries of only two out of six employees managing the business centres. As Janice explained:

It was actually one of our donors that told us to go into hatchery. It was very interested in the hatchery project so we requested funds to buy land. Another donor provided additional grant but we had to look for a third donor so we could improve the facility – to make it concrete. It was a huge investment but we weren't thinking of recovering our investment in building those infrastructures, one building facility cost PhP700,000 (AUD15,500), another PhP800,000 (AUD177,00) and another one cost PhP1.5 million (AUD33,200). As far as we were concerned, they were grants that allowed us to have the facilities then sell the prawn fry to fishers that would enable them to have an alternative source of income. Only to find out later that the fishers did not own fishponds ... So, who would buy from us the prawn fry? It meant looking for buyers who were no longer part of our organised fisher folk communities. Most of our organised fishers catch fish in the sea ... they're not fishpond operators ... so, we had to look for buyers of the prawn fry. We also realised that we had to recoup our investment so we started doing computations but on our own initiative. All we knew was it should be able to earn this much to continue the resource management; then from the income generated save enough money to fund the development work even without the donors. In terms of status, hatchery is breakeven and ongoing. Seaweeds enterprise is generating income and it has great potentials as a business. Fishpond is losing, I think we lost PhP1.5 million (AUD33,200) in the fishpond and might have to be stopped soon (Janice, Coastal Resource Development NGO – interview).

Unfair supermarket business practices

In addition to its burdensome loans, the Organics Marketing Enterprise was buffeted by retailers' unfair business practices termed 'buyer power' by Mills (2003). These included delayed payments, huge discounts, 'protection order' and 'listing fee' that burden small and medium-sized suppliers. Protection order referred to a buyer-imposed condition whereby retailers procured products at the old price ranging from one to three months before suppliers could increase their price. As Ricardo explained:

Our mark-up ranges from 15% to 20%. But it decreases, if you deduct all the costs, like the price of organic rice increased but we did not adjust the selling price because of the 'protection order'. That's one month ... because they're profit-oriented, they would buy at the old price. Sometimes they even ask for a two-month leeway. When we introduce a price, they'd still ask for a discount from the SRP (suggested retail price) ... sometimes up to 15%. Then, on top of the discount, they would put a mark-up, too, on the SRP. Some stores put a 30% mark-up (Ricardo, Organics Marketing Enterprise – interview).

Listing fee referred to the fees suppliers paid to get their products displayed on supermarket shelves (Mills, 2003). Ricardo said that it acted as the initial investment that a supplier made to get its products inside the supermarket and its branches. For example:

I think right now the listing fee is PhP1,500 (AUD33) for every product you introduce multiplied by the number of branches you want the products to be in. So for example, if you have a product sold in two sizes, one big and one small, that's times two, plus the number of branches. So, the ones that really earn are the supermarkets ... no wonder you see their branches sprouting everywhere (Ricardo, Organics Marketing Enterprise – interview).

The inordinate power exercised by supermarkets is further discussed in the subsection *Transforming unfair market practices*.

Non-business orientation of CBE partners

Similar to SAFRUDI's experiences with its CBE partners, Case Study 2 SE IMOs' trading relationship with their respective CBE partners appeared problematic. The non-business orientation of CBE partners, especially when it comes to quality assurance, seemed to be a common refrain. From the perspective of Organics Marketing Enterprise, the non-business orientation of its CBE partners included setting their selling price based on a 'target income', delivering products even without a purchase order and inconsistent quality of organic produce. In contradistinction to handicraft producers that met FTO buyers' target price, CBE partners of Organics Marketing Enterprise worked the other way around by computing their selling price based on their 'target income.' Hence, they could increase their price unannounced to the disadvantage of the IMO:

Our problem with community producers is, when they increase their selling price, there is no protection period ... it's [an] immediate increase when you place your order. Sometimes we don't have a buffer stock so we end up subsidising the price in the market.

So there we get hit again ... it's so difficult to balance the two (Ricardo, Organics Marketing Enterprise – interview).

Since products were delivered without purchase orders, the organisation was obligated to pay partner producers, further adding to its cash flow problems:

When I became ED (executive director), we started discussing with our partner producers in the last quarter of 2010 that we could not continue the practice without purchase orders. Because they kept on delivering, sometimes we couldn't pay them. And then they would get mad at us ... communities could be difficult to deal with although we understood that they needed the money (Ricardo, Organics Marketing Enterprise – interview).

Although community producers seemed to benefit from its lenient treatment, the cost of indirect subsidies to safeguard trading relationships with supermarket buyers seemed to have made its operations untenable. Thus, after almost two decades of social enterprise development, it was only recently that reforms were made to ensure the survival of the organisation and its CBE partners:

So to discipline them, for them to also learn how to do business, we said: 'If we have no purchase order, don't send any delivery; if we have not paid you, block us. Don't deliver unless we have paid you on your last delivery'. Sometimes, it's a question of quality. We told them, 'If the quality is not at par with both the market requirement and the quality we agreed together, we would reject the product'. Because we're the ones engaged in the market, we're the ones fronting the buyers we have to live up to our agreement. We have been shouldering the cost of cleaning the rice, sifting broken grains or tiny stones, to make them acceptable to the market (Ricardo, Organics Marketing Enterprise – interview).

Because Organics Marketing had been taking on the risks associated with doing business, first through donor subsidies and then through its own profits, the organisation believed that CBEs had become 'spoiled'. Hence, they failed to develop rational business values and discipline:

Somehow, I think the communities are spoiled because of your desire to help. Somehow because of that you don't correct them but when you're in business, you have to have that business mind-set. That's why we send technical assistance to the communities ... we look at their production facilities, and then we teach and help them improve their facilities. We also identified which communities are good at producing quality brown rice or white rice, for example. So we adjusted to ensure that the market is sustained ... if you depended on them, you would just quarrel (Ricardo, Organics Marketing Enterprise – interview).

As already stated, to reverse its declining fortunes, the organisation was considering the export market for organic coconut sugar. Because of a favourable experience in their first export of coconut sugar, the organisation thought that there might be opportunity in the export trade:

We exported a batch of coconut sugar through an exporter to the US market. The buyer said it would place another order but we are still waiting. That's one difficulty when you depend on exporters because you wait for orders to come. There is also another buyer interested in exporting to Japan but our negotiations are still ongoing. For our first export, our income was actually good. That's what opened our eyes to the idea of exporting our products because the payment scheme is better unlike in supermarkets. Whereas, export is cash – 50% down payment and the 50% remainder upon delivery (Ricardo, Organics Marketing Enterprise – interview).

Just like the Organics Marketing Enterprise, Kanlungan Fair Trade NGO had been subsidising for some time the risk associated with poor craftsmanship. It was only recently that trading agreements with community producers had been forged. As well, the negotiation process seemed to have been carefully managed to avoid misunderstanding and antagonising them. For example:

This one (referring to a rejected recycled pencil case) ... we've already paid this. But last year [2010], we returned the rejected items to the women's group because the sewing was not straight. Sometimes, because we're too kind and they're in a hurry since they need money for the family, we pay them only to find out later that the products delivered were of poor quality and so we couldn't do anything anymore. We thought that we should have a system set up, like payment would only be made after the quality has been checked. We discussed this last December [2010] and we said that rejects would be returned and replaced by them. They agreed. So it's really important that you talk so you don't end up hating each other. You see sometimes there are issues, especially when these are difficult to understand by the community, there will be many bruised feelings (*maraming tampo*) (Luisa, Kanlungan Fair Trade NGO – interview).

The next section delves on the experiences of SE FIs.

Providing financial services: Experiences of SE FIs

To stay sustainable, SE FIs have been found to shift from grant-giving to financial service provision to market-oriented SEOs. Although they generated profits, these were modest compared to commercial financial institutions whose main objective is profit maximisation. Most of the SE FIs' financial products carried concessionary terms

that made them affordable to cash-strapped market-oriented SEOs. However, SE FIs seemed to be enjoying donor confidence because funding that would have been awarded to several NGOs in the past were being coursed through them. Additionally, compared to NGOs, SE FIs were set up by CSO networks; hence, they enjoy certain advantages, such as economies of scale and public and private sector linkages, allowing them to leverage their resources and transfer risks to frontline MFIs and SEs. Although SE FIs still have a limited market reach and impact on poverty reduction, private commercial corporations were found to be encroaching on their market. These findings are discussed below.

Generating income from endowment funds and financial services to SEOs

That's why we shifted from grants to loans because if we continued with grant-giving, the organisation wouldn't be sustainable (Rosalinda, CSO Co-operatives Federation – interview).

SE FIs invested their endowment funds in commercial instruments to generate income to fund their financial services and grants. Although the global financial crash in 2008 negatively affected the interest income of the endowment funds of two SE FIs, the principal trust funds were not affected. For example, the Foundation for Equitable Development's original endowment fund of PhP1.3 billion (AUD28.9mn) in 2001 grew to PhP1.8 billion (AUD40mn) in 2010 and generated over PhP1.1 billion in interest income. In the case of the Foundation for Sustainable Local Economies, its original endowment fund of PhP454.8 million (AUD10.1mn) in 1995 almost doubled in 2010. Since it was transformed as a co-operative, the total assets of the CSO Co-operatives Federation also grew by almost twice its original fund of PhP39.7 million (AUD882,200).

Although the interest rates charged by the SE FIs were pegged to commercial rates, they were a few percentage points lower than commercial financial institutions. Since the interest rates were based on the diminishing balance of the loan, the effective interest rates dropped. In addition, discounts or rebates for prompt payment further reduced the interests charged. As examples:

We compute our interest rate using government's T-bills (treasury bills) interest rates, the cost of operation, cost of commercial money, and then we triangulate including portions of the risk and provision for losses. In general, we're always lower than the market rate. Right now the interest rate is 11% ... it usually hovers around 7 to 8% sometimes 9% when the specific 3BL performance of a partner is weak. If the partner has a good environmental management performance, we may give a discount on interest rate (Juancho, Foundation for Sustainable Local Economies – interview).

Our rate for regular lending activity is 12% diminishing rate per annum. So, if an organisation has one year to pay, that will be 6%. For the soft loan the rate is 8% diminishing. So, the effective rate is really only 4% (Rosalinda, CSO Co-operatives Federation – interview).

SE FIs also placed development deposits in co-operative rural banks based on commercial rates for short-term time deposits, while the interest rate for guarantee funds ranged from 1% (CSO Partnership for Sustainable Development) to 1.5% (Foundation for Equitable Development).

Forms of leveraging financial risks and ensuring organisational viability

SE FIs appeared to leverage or mitigate their financial risks through several strategies: First, by coursing their microfinance facility through microfinance institutions and other social enterprises. For example, Table 9.4 shows the distribution of the loan portfolio of the Foundation for Equitable Development from 2001 to 2010. Of the total loan portfolio, the microfinance facility, which was extended to 134 microfinance conduits, comprised 55%. Micro-enterprise credit for 54 social enterprises accounted for 11%, while only 4% was extended to 30 social enterprises engaged in agricultural production.

Table 9.4: Financial portfolio of the Foundation for Equitable Development (2001–2010)

Loan portfolio	Number	Amount (in PhP)	% Number	% Amount
Financial services	284	650,635,845	100%	100%
<i>Microfinance loan facility</i>	<i>134</i>	<i>357,519,496</i>	<i>47%</i>	<i>55%</i>
Co-operative	78	236,215,000	27%	36%
NGO	56	121,304,496	20%	19%
<i>Micro-enterprise loan facility</i>	<i>54</i>	<i>69,612,909</i>	<i>19%</i>	<i>11%</i>
Co-operative	33	44,756,776	12%	7%
NGO	21	24,856,133	7%	4%
<i>Agricultural development facility</i>	<i>30</i>	<i>27,392,745</i>	<i>11%</i>	<i>4%</i>
Co-operative	14	15,131,200	5%	2%
NGO	16	12,261,545	6%	2%
<i>Other loan facilities (housing, calamity fund and others)</i>	<i>63</i>	<i>159,110,695</i>	<i>22%</i>	<i>24%</i>
<i>Equity/development deposits</i>	<i>3</i>	<i>37,000,000</i>	<i>1%</i>	<i>6%</i>

Source of raw data: Foundation for Equitable Development database of funded projects from 2001 to 2010.

Thus, compared with the risk of lending to direct beneficiaries, such as producers' associations and family enterprises, lending to MFI conduits seemed to lessen the risk of defaults on loan repayments:

Repayment is okay. Well the microfinancing has a higher repayment rate. It conforms to the standard of 90% to 95%. As regards the enterprise financing we have a lower ... I think the overall is 85%. It also depends on the level and capacity of the enterprise. Among co-operatives, we have a better repayment rate (Criselda, Foundation for Equitable Development – interview).

In the case of the Foundation for Sustainable Local Economies, while overall collection was pulled down by defaulting social enterprise borrowers, its microfinance repayment rate was still within the industry standard of 85%. The delinquency rate for social enterprise loans was much higher: averaging 48% from 2007 to 2009 before declining to 28% in 2010. Compared to the microfinance facility and development deposits, the foundation's loan portfolio for social enterprises was considerably smaller, too.

Hence, it seemed it was really the frontline market-oriented SEOs—with limited access to resources and directly engaged in the market—that had been taking economic risks. This seemed to be true as well for two SE FIs directly engaged in microfinancing. Even though the CSO Partnership for Sustainable Development worked with farmers' co-operatives for their direct microfinance program, it seemed they were exposed to the same risk as its MFI competitors:

Microfinance is a bit challenging for us, but so far the repayment is good and our interest rate is lower than the market. The market usually charges 3% per month ... we are charging only 2%, which is basically enough for the operations of the microfinance program. We have two microfinance programs – one is with a microfinance partner; then there are three areas that we are piloting and we ourselves lend the money. There are many challenges in microfinancing, especially now that there are a lot of microfinance institutions competing for clients. I think among the so many microfinance institutions only a few want to go into agriculture because they think it is quite risky. What makes us different from the others in the industry is that we work with co-operatives, unlike them who work with individuals. Only co-operative members can borrow from us (Rolando, CSO Partnership for Sustainable Development – interview).

The second form of leveraging risks was through enrolment of collaterals in the form of real estate, assignment of receivables and loan contracting with a guarantor, e.g., another SE FI, such as the CSO Partnership for Sustainable Development. However, the main determinant for the approval of a loan application would still be the SE FI's assessment of the capacity to pay and the viability of the project:

When we see in our assessment that they have a property, we require them to offer the property as collateral. But for those that do not have anything to offer as collateral, we require the deed of assignment of receivables, sometimes comprehensive surety agreement. We also explore guarantees, if ever there is any. But we are not really that interested in the collateral. We believe that their payment is not based on their collateral, but on their capacity to pay and the viability of the project. So we're not concerned ... 'Oops, we're only 70% covered' (Rosalinda, CSO Co-operatives Federation – interview).

Third, similar to SE IMOs, SE FIs provided subsidies through capability-building and BDS to reduce the risk of defaulting and maintain their credit worthiness. These objectives served both the SE FIs as financial conduits for other development agencies and the borrowing organisations. By demonstrating the credit worthiness of its clients, SE FIs could leverage more financing from international and public sector agencies. One of the most important assistance provided, however, was networking and backward-forward linkages to ensure that assisted agricultural co-operatives had access to technology, financial resources and market:

We assist our member-organisations by doing organisational diagnoses so we are able to identify their weaknesses. Many are ... well, especially the ARBs (agrarian reform beneficiaries) ... weak. So, that's where we focus the intervention, on organisational development. For example, we are working in partnership with the Organics Marketing Enterprise in strengthening the ARB co-operative that produces coco-sugar being marketed by the foundation. It endorsed the ARB co-operative to become a member so we could help the organisation financially with the working capital for their coco-sugar production. However we saw that we could aid them not just financially but also in the systems installation in their area. Right now, we're assisting them to develop microfinance products for coconut farmers and their labourers. Aside from that, if member-organisations need assistance in technology, we partner them with organisations that are already experienced, that have been using the particular technology for a long time. In co-operatives, there is a principle, 'Big brothers and sisters helping small brothers and sisters'. We, too, follow that principle (Rosalinda, CSO Co-operatives Federation – interview).

In the case of the CSO Partnership for Sustainable Development, Rolando said that its BDS intended to prepare co-operatives to take over lending once it phased out of the program:

One of our objectives is to strengthen the co-operatives so that when they generate enough income and are able to provide production loans to their members, we can already phase

out. That is the sustainability that we aim for. So, we really have to strengthen the co-operatives. Right now, we provide the production loans. The second level of our work is to ensure that the enterprise or co-operative is efficient, well-managed, and has good governance and so on. The third level is that we link them to the market, so that it is free-flowing ... so we get paid, the co-operative already has three sure buyers, distributes to them and income flows back and so on (Rolando, CSO Partnership for Sustainable Development – interview).

And, lastly, through selection of direct beneficiary groups, SE FIs were also able to reduce financial risks. By selecting asset-owning poor, such as salaried workers, OFWs and their families and farmers with access to land, rather than the poorest of the poor, SE FIs could ensure financial viability:

The organisation has been a beneficiary of Canadian grants for 20 plus years and we are measured for sustainability in the interventions that we undertake. I think if you want a measure of sustainability, even at a low level, the selection of beneficiaries is crucial. If you work with the poor who have no assets, that's what they ... even the donors also say that they don't want to touch them because it's like a well where they keep on throwing coins but it does not get filled up. At least in rural areas, the small farmers have access to productive assets. We actually call that 'sweat equity'. We give them assistance and their counterpart is their sweat. So small holder farmers ... by that, we mean the average land tilled is 0.5 hectare to around 1.5 hectares (Rolando, CSO Partnership for Sustainable Development – interview).

Viable operations but not enough to fund anti-poverty programs

Despite the lower interest rates and generous discounts, SE FIs appeared to have viable operations. For example, the Foundation for Equitable Development generated a total of PhP95.7 million (AUD 2.1mn) in income from financial services from 2001 to 2010 or PhP9.57 million (AUD212,700) annually. For its part, the Foundation for Sustainable Local Economies accumulated PhP109 million in interest income (AUD2.4mn) from 2004 to 2010 or PhP15.57 million (AUD346,000) annually, while the total surplus generated by the CSO Co-operatives Federation in the same period amounted to PhP19.1 million (AUD423,692) or PhP2.73 million (AUD60,700) annually. However, since only interest income from endowments and financial services was used to rollover the SE FIs' financial portfolios, they seemed insufficient to fund the full range of poverty alleviation projects for the increasing number of families living below the poverty line.

Under their latest strategic programs, three of the SE FIs shifted their development program away from offering financial services to a broad clientele to a smaller targeted sector of growth-oriented micro-entrepreneurs and social enterprises. The shift appeared to be a tacit acknowledgement of the difficulties of reducing widespread poverty and at the same time adhering to a triple bottom line perspective for social and economic change. Hence, from being a general provider of grants and financing, the Foundation for Equitable Development had decided to focus on scaling up social enterprises for the period 2011 to 2015. By so doing, it believed that it would be more effective in lifting 150,000 poor households out of poverty by 2015. In the case of the Foundation for Sustainable Local Economies, it would focus its financial services during the period 2011 to 2016 away from what it called 'narrower sub-industry groups or subsectors' to a more integrated local economic development approach. Financial services to enterprises that did not fully meet the 3BL test under its former strategic program might be discontinued or re-evaluated:

It seems that 3BL and the subsector approach may be less relevant to the partners of the Foundation for Sustainable Local Economy who are into handicrafts, which is now a sunset industry. Handicrafts utilise indigenous materials and their market is becoming less and less, and with the global recession back in 2008 the market was very much affected. Their economic bottom line is highly volatile and of course their EMS (environmental management system) varies as well. In the market, the competitors' cost per unit is lower when it's synthetic, so there's already a competitive disadvantage. Although it does not mean it's the end of our engagement with them (Juancho, Foundation for Sustainable Local Economies – interview).

For its part, Rosalinda said that the CSO Co-operatives Federation adopted in 2010 what it termed the '4Ps of SD' (sustainable development) as its advocacy approach. The 4Ps stood for prosperity (economic development), people (social equity), planet (environmental protection) and peace (elimination of armed conflicts). In tandem with the criteria used to assess the credit worthiness of borrowing members, the 4Ps of SD would be used as additional benchmark for financial assistance and lending:

The 4Ps is actually new. Its indicators are not that elaborate yet. It is still in the development stage ... we are still developing the indicators that can measure that members are really meeting the 4Ps. If other organisations have their triple bottom lines, we have our 4Ps (Rosalinda, CSO Co-operatives Federation – interview).

Appraising the social enterprise experiences of members of SENs

This section discusses the views of SENs and their appraisal of members' experiences in SE development. The main finding regarding the experiences of their members was: *creating an alternative market system seemed to have been abandoned. Advocacy on creating equitable trading relationship at the domestic market appeared to have been disregarded as well. Instead there seemed to be a naïve belief that once the workings and tools of the capitalist market are mastered, social enterprises would become feasible.*

The mainstream is the market, not the alternative market

Lorna said that members of the NGO-PO Social Enterprise Network were sent to regional and national trade fairs organised by the Department of Trade and Industry to feel the working of the mainstream capitalist market. She said that members realised that it was possible to engage in the mainstream market and there was no need to create an alternative market for CBE products. What they needed was to study the market to successfully adapt to its demands, such as volume production, quality and timely delivery. As she explained:

We sent NGO and PO partners to DTI regional and national trade fairs so they were able to see how their products would fare in the market. When they were confronted ... for example, talking to customers and how they would they sell their products ... they got to feel what the buyers wanted. That's when they realised that they really needed to work harder. Some narrated that there were potential buyers who wanted to buy big volumes of certain products. The buyers would ask them if they could deliver 10,000 pieces at a certain month and they would think, it would be difficult ... Slowly, they understood that they needed to study the mainstream market and that they need not create an artificial stream or alternative market composed of the same people or NGOs just to do away with the market forces that are present in the mainstream (Lorna, NGO-PO Social Enterprise Network – interview).

However, as borne out by the experiences of veteran SE IMO above and Carlos' experiences of auditing fair trade producers, meeting mainstream market demands might not be as easy as it seemed at first glance:

Fair trade handicraft producers can't cope with the requirements of mainstream buyers because they have a different standard. They're unlike fair trade buyers who are more lenient. If production is going to be a little delayed they [producers] can negotiate; and they also receive advance payment because it's part of the principles being espoused by fair trade. Sometimes they get the full amount, 100% down payment from fair trade buyers. In the mainstream market they can't negotiate that way because the transaction is really

business to business. There's not that much social control which is what they find in fair trade (Carlos, Philippine Fair Trade Network – interview).

Carlos attributed the dependency partly to the 'fair trade principle of long-term relationship' where the 'buyer would really stick to them for a very long time'. While it might create 'dependency' on a very few buyers and exposed producers without a fall back, e.g., dissolved CBE partners of the Philippine Fair Trade Handicraft Association, the admonition to diversify in the mainstream market seemed inconsistent when juxtaposed with the original *raison d'être* of the fair trade movement. The CSO Network had not done an assessment of the social experiences of partners to identify the 'good practices and best practices' but believed that it needed documentation so they could share the experiences with other groups.

The next section addresses the third research question pertaining to the challenges of translating the VMG of the social economy organisation into the social enterprise project.

Social mission and the challenges of being social enterprises

The challenges faced by market-oriented SEs in translating the VMG of their parent organisations pertained to their avowed social mission of:

1. *Empowering local communities.*
2. *Transforming unfair market practices.*
3. *Sustainable development.*
4. *Number of beneficiaries reached and scope of operations*
5. *Unintended beneficiaries and consequences of SE development.*

1. Empowering local communities

Through provision of BDS and other technical assistance, research participants believed that CBEs would have better chances of sustaining their livelihoods. For FT IMOs, this meant that organised and assisted producers' associations would be able to develop their local market and sustain their operations when their products were no longer selling in the international fair trade market. However, the low ratio of CBE partners surviving showed that the market remained the final arbiter on which community or family enterprise would survive and become viable. This finding is illustrated through the examples below:

Market decides viability of producers' associations

When an association becomes a partner-producer, the initial phase is really to bombard the members with capability-building, which comes in the form of trainings. These trainings are fully subsidised and form part of the social development work of our organisation. We

provide them with a lot of training on product development, costing and pricing, quality assurance, leadership and values formation. For our organised community partners, we have a six-year partnership; while for family enterprises and assisted producers we have a three-year program. Assisted means that community partners have graduated from the social development phase and are ready to take their enterprise at a higher level but would still need some assistance and subsidies (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

However, it seemed that very few CBE partners survived after ceasing their trading relationship with the Fair Trade Handicraft Producers' Association. For example:

Among our organised, there used to be 10 or 15 but now we're down with just two or three (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

While there may be other reasons for the death of CBEs, such as dislocation of members due to natural disaster, Gertrudes attributed it, nonetheless, to the 'natural cycle of business':

The organisation is dissolved because demand for designs and raw materials evolve ... The market trend now may not be the trend in the future (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

Although some members might become enterprising individuals and consent to continue as individual suppliers, the organisation seemed to prefer to work with a new producers' group because it would benefit more people:

Right now one organisation is going down, they're starting to lose their [purchase orders] and some members have expressed: 'Ma'am, we'll just become individuals, we'll just deliver' ... But we tell them to think about it well because you just don't settle ... As much as possible, when we organise them as a group, we expect that the development really caters to the group. But in reality that's not a hundred percent (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

But, a new producers' group could supply unique handicrafts made of materials not yet available in the market and that could increase the organisation's competitive advantage. Hence, while CBEs benefited from business and leadership training, the market remained the final arbiter on which community enterprises would survive and become viable. This finding seemed to be consistent with some of the literature in FT handicrafts (Esperanza, 2008; Littrell & Dickson, 1999 in G. Fridell,

2004; Rosenthal, 2012) that criticised forsaking of traditional indigenous crafts and artisans in favour of those that sell.

In the case of Organics Marketing Enterprise, the limited number of product lines marketed by the organisation was decided by the high-end segment of the Philippine consumer market. Ricardo said that through ‘trial-and-error’, organic muscovado sugar and organic rice became the mainstay products, while non-commercial products were dropped:

When we started, we had a trial-and-error approach. We took all the products of partner communities. We did not choose. I was hired from the private sector to take care of the distribution. So we entered all accounts, tertiary, mainstream, single outlets, even *sari-sari* (mom-and-pop) stores. Almost all of the products came back ... returns. They did not move after two months. The only ones that moved were those in high-end supermarkets so we immediately saw that we cater to the class A market who didn’t mind the price because they’re the health-conscious buyers. We had 60 CBE partners which really didn’t have success stories. We let them go because they didn’t have a market. CBEs die naturally when there is no market ... So now we are very careful when it comes to the products of the communities (Ricardo, Organics Marketing Enterprise – interview).

Thus, for several reasons, Ricardo appeared sceptical of the way in which social enterprise was promoted as a development model. First, since the market was limited to a tiny segment of the consumer market, not everyone could be accommodated. Secondly, since there was no advertising support and consumer awareness for CBE products, a market was not being created. Thirdly, the premium pricing of organic and fair trade products left out a bigger number of ordinary consumers:

Yes, we’re split in the sector. That’s also my question ... What happens to the communities which are pushed to go into social enterprise development only not to have a market for their products? Because all of a sudden, everyone is convincing communities to go into social enterprise. Some say that they should go into fair trade or specialty stores but then the [sales] volume there is also small. There are so many farmers and communities ... I don’t think the fair trade or specialty stores can accommodate them all. You would still have to enter the mainstream market and you would need a marketing arm to promote your products ... So you would still have to go back to the question that not all products would be accepted by the masses, by the mainstream market ... more so, if you don’t have advertising support. So, even if you have the best product but it’s not promoted, it would not take off. Second, the products sold in fair trade and specialty stores are very expensive

[laughs]. Their prices are not for the masses. They're really for the wealthy class AB (Ricardo, Organics Marketing Enterprise – interview).

In the case of the Philippine Fair Traders' Association, since its management information system was not maintained, ascertaining the number of community producers and family enterprises that sustained their operations was difficult to establish. Nevertheless, Rafael appeared buoyant that some of the producers assisted in the past had survived and credited the organisation for their success:

We enjoy the feeling that some of the old-timers are still there, some are doing good. They still would acknowledge us as part of their growth and development. We're happy with that already (Rafael, Philippine Fair Traders' Association – interview).

But to give an idea of their reach, Rafael said that under a three-year funded program that ended in 2011, around 300 enterprises annually were targeted to undergo business training.

2. Transforming unfair market practices

While not all organisations adhered to the FT vision of transforming inequitable trading relationships, it can be argued that through their VMGs they all aspired to be the antithesis of mainstream corporate practice. However, it seemed that transforming mainstream business practices was not vigorously promoted and advocated unlike in the international ethical markets. Instead, the accent was on how to make SEs and CBEs acquire the business instruments and mindset of private entrepreneurs in order to penetrate the mainstream market. Additionally, it meant trading off community resource diversity and indigenous knowledge and identity to heed the dictates of the market. On one side, given that SE IMOs and CBEs did not have the countervailing power to change the unfair terms of trade in the domestic mainstream capitalist market, they end up subsidising the CBEs, functioning to smooth out quality and packaging issues, and losing whatever income they could generate to private retailers. On the other side, among fairly trading SE IMOs, generating the countervailing power meant giving up some of the FT standards to attract to their cause the MSME sector that is also unfairly subjected to the power of capital. These findings are discussed in the sub-sections below.

Social enterprise ethos versus market values

Given that most of the CBE producers came from marginalised sectors in rural communities, transforming them into savvy entrepreneurs attuned to the characteristics and needs of high-end metropolitan markets appeared unrealistic. Hence, SE IMOs functioned to smooth out quality issues and took care of the packaging and labelling of CBE products to meet target market's needs:

Because your target market is the high-end, the competition is on the quality of products ... So the quality of the product, packaging and its looks has to be really attractive. We used to have a bottled product with a high-end price. The supplier, the community, told us to sell them at a certain price. We said that it's pricey but they retorted that our market was high-end. When they delivered the product to us, the lids of the bottles were of different colours. I told the supplier that the high-end market would not buy them. So we studied and improved the packaging to cater to the market (Ricardo, Organics Marketing Enterprise – interview).

Being sensitive to the needs of the high-end market, whose consumption tastes and values are different from community producers, could also demand acquiescence to long-standing prejudices against cultural minorities and marginalised groups.

Then we introduced another product in a store in Makati. It was a juice product and written on the label was 'Made by the Indigenous Peoples of Abra'. The buyer immediately rejected the product because no one would buy it. Why? The buyer said: 'What do Indigenous Peoples know of hygienic handling? They should concentrate on crafts instead of food products'. The buyer must have imagined someone wearing a ... [G-string]. But then, that was the produce of the community. So, we changed the label. We wrote: 'Made in Abra' or 'Product of Abra'. Well, that was the market ... but the buyer had a point, right? The rich are very picky and cautious of the food products they buy (Ricardo, Organics Marketing Enterprise – interview).

Additionally, market sensitivity could mean shifting from traditional agricultural production to a commercial product. While it might be economically beneficial to the community, the trade-off could be the loss of agricultural diversity and local community knowledge:

So, when a community approaches us with their product, we tell them to produce muscovado sugar instead. Because it has a 100% sure market. With muscovado sugar, we are sure that we will not incur losses. That's what I meant when I said that we are becoming choosy when it comes to products. Unlike before we get them once offered to us by a community (Ricardo, Organics Marketing Enterprise – interview).

As already discussed, one trade-off faced by fair trade IMO's concerned the foregoing of the social premium, which supposedly symbolised the principle of solidarity between fair trade producers in the South and consumers in the North. Instead, Southern producers were expected to become

efficient enterprises that could provide, in the long run, cheaper products to the North comparable to mass-produced industrial handicrafts. For example:

I think the social premium is now going to be based on the preference of the consumer. We won't insist on it anymore ... But there are alternative trading organisations that through the years are still there. We still have buyers who stick to the old social premium but the mainstream in fair trade, their marching order is: 'No more social premium; you should even be selling it lower because you're people should be more efficient by now' (Rafael, Philippine Fair Traders' Association – interview).

Hence, similar to other SE FTs such as SAFRUDI, it was labour that was discounted to compete in the market. Rafael justified it in terms of being a 'common ground' that workers and owners 'forged' when faced with the choice between 'subsistence and growth of the enterprise':

One of our fair trade members has a very good relationship with her workers ... I think the workers also knew if she could not really afford the minimum wage ... as long as she is transparent and they knew how much the enterprise earned. Workers usually agree to a lower than minimum wage ... but what is really good, in the event that earnings are high, portion of that will go to the workers. When it comes to practicing social enterprise, she does it that way. This year, she got lucky and returned 10% to the workers'. That's the beauty of it (Rafael, Philippine Fair Traders' Association – interview).

What we can afford at the moment are the existing legislated minimum wages per locality. We still cannot give [the living wage] but we are going to that direction once our sales and income improve. There has to be incentives or something that you can give back to those who help or become part of the organisation. So our direction is to be able to provide higher wages ... we know that because we are consumers, too. We know the cost of education, cost of living, the bills, water, food (Luisa, Kanlungan Fair Trade NGO – interview).

The opposite pertained in the case of the Organics Marketing Enterprise. Since farmer CBEs appeared to command the price and the organisation had a very low mark-up, the organisation was hard-pressed to make ends meet and seemed to be financially haemorrhaging:

Actually, we are working at a loss right now. That is why we are faced with a huge challenge to improve our operations. That is one of the challenges we face right now. In the

past 11 years, our equity was negative (Ricardo, Organics Marketing Enterprise – interview).

Adding to its woes was the loan payment contracted by the organisation to assist CBE partners and the loss of funding. Thus, while the organisation was considered a model of social enterprise, it seemed it was not as ‘entrepreneurially savvy’ as it was made out to be:

The loan payments eat up most of our income plus we also have employees posted in Mindoro, in Mindanao where we used to have projects. But after project funding ended, the staff stayed on to support the communities. Their salaries now come from the organisation. So we’re struggling and we really have to adjust our expenses. We seemed not to have planned well for the phasing out of those [funded] projects ... then of course we also committed errors during those times so we weren’t prepared when funding stopped (Ricardo, Organics Marketing Enterprise – interview).

Mainstream business practices and unfair terms of trade

The biggest challenge faced by SE IMO was changing the unfair terms of trade in the mainstream capitalist market. Due to globalisation, cheap mass-produced products from other countries squeezed Filipino MSMEs out, while SE IMOs and CBE partners did not have the financial capital and human resources to match large private sector competitors in improving product quality, producing in volume and promoting the products through advertising:

We try to moderate our margins if ever. If we could sell a product for PhP10,000 (AUD220) and the producer sold it to us at PhP1,000 (AUD22), we would sell it for PhP10,000 ... then return part of it to the producer and use the rest to subsidise others to help them compete ... We also look at what’s available in the market, so it’s difficult to balance. It’s always dependent on the social enterprise to adjust ... the most difficult practice in fair trade is to give 50% advance payment. That’s the hardest. We try to observe that as much as possible but for partners who can afford to fund their production, we don’t give it anymore so that we can give it to others (Rafael, Philippine Fair Traders’ Association – interview).

The problem of being a social enterprise is we lack promotion or advertisement. Unlike large corporations ... they even have teasers before they launch their new products in the market. We can’t do that. We launch new products once supermarkets have approved them ... we just put them in the shelves and hope that consumers buy them. Our role is

really just distribution because we don't have the budget for advertisement. Hence, no matter how good your products are, if you don't advertise, competing against other products becomes difficult (Ricardo, Organics Marketing Enterprise – interview).

Furthermore, private sector rice suppliers treated the Organics Marketing Enterprise just like any other competitor. With cutthroat competition inside the supermarket, its organic agriculture advocacy, which was not really pushed aggressively, apparently did not count and with limited resources, it could not compete on equal footing:

The private sector treats us as a competitor. That's why we get beaten ... If you're familiar in supermarket layout, they have displays for rice ... we have what we call as the 'battle of the supermarket' in the selling area. Where do you think are the most attractive displays where competitors try to outdo each other? The inside of big supermarkets is like realty. Each space has a cost. Other big companies rent gondolas or island gondolas for PhP30,000 (AUD667) per month. But for us, the long row of shelf, the regular shelf display does not have rent but we pay allowance in the form of a special discount. That's where we are juxtaposed against each other. The role of the merchandiser is to ensure that your display of products is complete. Since we don't have a merchandiser, our competitors sometimes bury our products at the back and put theirs in front. Of course, when your product is at the back, the items in front are what the consumers will get. So, if you look at that aspect, they really treat us as competitor. They don't care about your advocacy; it doesn't count (Organics Marketing Enterprise – interview).

With regard to the buyer power of supermarkets, the Organics Marketing Enterprise seemed to tread cautiously since it could antagonise buyers and lose its hard-won battle in getting into the mainstream market:

We're making a move right now ... it's called blocking. We monitor the payments from the supermarkets. If the payment is past due the 30-day term, we put on hold their next order so we could collect payment. That's the only measure we can do as a control mechanism. The disadvantage of that is the supermarkets can threaten to delete us if we do not deliver our products. So, it still depends on your products. If there's a big demand for your products, the supermarket would not want you gone. It would be obliged to pay on time (Ricardo, Organics Marketing Enterprise – interview).

Thus, without the financial clout and the ability to change the terms of trade of buyers in favour of small suppliers like SE IMOs, Rafael believed that the only way to create a countervailing power was to join forces with the MSME sector:

What we're fighting for, personally I'm very strong on this, is to make the market a little bit fair by way of ... for example, one of the biggest malls in the country, if you bring the product there, they pay after 120 days, is that fair? Are you sure you're not exploiting the small manufacturer, who will need working capital for the next six months? But if the mall owners are fair, they will pay after 30 days. That is one advocacy that we're trying to push: fair business practices, by being fair, by being just, by not exploiting anyone. Of course there are still so many other practices that are very, very bad. We are the small boys in the forest that shout 'Oh, let's be fair, let's be just, let's do this'. Very easy to ... you know. That's why we're expanding to the SME (Rafael, Philippine Fair Traders' Association – interview).

3. Sustainable development

All Case Study 2 research participants acknowledged the difficulties of applying their respective vision of sustainable development, whether they subscribe to the FT principles or the three bottom lines in their social enterprise projects. Admittedly, the 'economic part' of the 3BL appeared to be the easiest bottom line to attain but they were uncertain that balancing the competing interests of the social and the economic would ever be resolved. While CBEs were expected to learn the instruments of business and understand the workings of the market, it seemed that SEs themselves did not have the capacity and human resources to take it head on. Moreover, with barriers to entry set at a high bar, it seemed that competing and succeeding against well-entrenched retailers and cheap mass-produced products from other countries was not within the competence of SEOs but with the state. These findings are tackled below.

Nature of social enterprise is hard to practice

Similar to SE IMOs, SE FIs acknowledged the difficulties of applying the three bottom lines in real-life business situations. Gabriel echoed the trade-offs experienced by social enterprises that were navigating the capitalist market while at the same time trying to uphold the social and environmental objectives:

It is not easy to do those three. Actually it is not a challenge of simple complementarity; it's really a challenge of trade-off. So will one lead to the other so to speak? It's not easy ... The promise that you can make money while doing something for the environment, at the same

time, do something for the poor is not easy. The nature of a social enterprise itself is a challenge in practice, for me, at least (Gabriel, CSO for Integrated Rural Development).

As the Foundation for Sustainable Local Economies also showed, the ‘economic part’ of the 3BL appeared to be the easiest bottom line to attain:

Based on past evaluations, it is really the economic part of it [3BL]. It’s easy to attain particularly in microfinance engagements. Microfinance, you see, has matured to the extent that it already knows its operations, and we have no problem meeting the economic bottom line of microfinance. The social is modest. The challenge for microfinance partners is how they can prove the social impact because it has been more than a decade now since it became significant as a poverty reduction strategy ... The whole microfinance sector is challenged by its social impact performance – how sustainable microfinance really is. In organic farming, we have problems meeting the social participation ownership because it is still entrepreneur-based, individual-based (Juancho, Foundation for Sustainable Local Economies – interview).

In the case of the CSO Partnership for Sustainable Development, while it has an independent trustee from the private sector, Rolando seemed uncertain that balancing the competing interests of the social and the economic would ever be resolved:

So during board meetings, the NGO representatives would react, ‘Oops, that’s already profit-making ... but how will you fund the projects without profit?’ It’s a struggle. It’s not ... not all NGOs I think will be able to resolve the balance between developmental and business ... Even the CSO Partnership for Sustainable Development. So far we have taken a few steps but I don’t know for how long or if we will really be able to completely balance those two. There is a continuing struggle within the organisation (Rolando, CSO Partnership for Sustainable Development – interview).

Not cut out to do that kind of work

Another challenge acknowledged by SE FIs was how to understand the workings of the capitalist market. Gabriel believed that it required a ‘higher level of discipline’ from the staff and the board. Additionally, social enterprises would need sustained subsidies in the beginnings of social enterprise development because the ‘set up entry cost is very high’. However, as more financial donors were phasing out, it seemed that local SE FIs had less money and time to invest in social enterprise development and capacity-building. For example, in the case of the Foundation for Equitable

Development, its program to build 20 independent provincial centres that could serve as microfinance conduits within three years proved too short a time period for 10 provincial centres that did not have the human resources and experience to service the poorest of the poor. As Criselda explained:

The main thrust [of previous program] was reaching out to the furthest areas ... so if so you operated your microfinance from the main centre, then, you had more transaction costs if you didn't have partners working with the poorest of the poor in those communities ... Also, we thought that the members, who already had the experience, would be able to pull the other members into a more sustainable ... in the sense that they would be able to continue their operations. We provided support for three years and then our expectation was it would taper off and then they could start paying off for, at least, their project officer and a little of their administrative cost just to complement our support. However, it didn't happen primarily because they were not cut out to do that kind of work. They had to face the realities of loan collection, etc. etc. So these were the ones that did not succeed (Criselda, Foundation for Equitable Development – interview).

Thus, it seemed that the other half that succeeded had already built up the network and experience in working with the poor. The institution-building phase that Gabriel referred to was already interwoven in the organisational structure and culture:

Looking at the successful experiences, one is the Negros Occidental [provincial centre] ... it's a multi-sectoral alliance development NGO that has been working in agrarian communities for at least 10 years before we came in, before we became partners. Hence, the basic elements are already there. First, the farmers' communities were already organised, very well trained. Second, they already have a good organisational structure where they have community-level workers. Third, I guess is they organised the farmers into a co-operative (Criselda, Foundation for Equitable Development – interview).

Based on its 2011 annual report, the Foundation for Equitable Development provided the 20 provincial centres with a total of Php203.7 million (AUD4.6mn) in loans and subsidies from 2002 to 2010. Granting that each received an average of Php10.185 million (AUD22,890) for three years, the assumption to reach the poorest of the poor in far-flung areas, organise and provide them with BDS, indeed, seemed too ambitious.

For its part, the CSO Partnership for Sustainable Development acknowledged that the NGO ‘bleeding heart’ mentality that Janice had alluded to (see pp. 376-77) not only afflicted its board but also its staff. As Rolando said:

We have challenges with regards people ... their capabilities, especially the staff from within. If they are from NGOs, the conflict is the same ... whether up or down ... So mostly, if they’ve been working in the community, they’re experience is community organising or whatever [social development work]. When it comes to business, it’s difficult ... they don’t have the experience for it. So, getting the right mix or the quality of skills for the implementing staff is a challenge. There are not that many people yet who have the social enterprise thinking (Rolando, CSO Partnership for Sustainable Development – interview).

Limited enterprise capacity

Carlos also underscored the limited market reach of FTOs and the need to diversify as a major challenge for CBEs. However, given the limited capacity of CBEs to compete against mass-produced goods from cheaper-producing countries already discussed, it seemed that the problem would not be resolved without a major overhaul of production processes from household-based, artisanal production to industrial production. This would also require sustained state support to develop domestic industries otherwise, handicraft CBEs might simply become sample makers for the mainstream market:

Some buyers would come and ask for design samples then they would go to China to show the samples and shop for the lowest bidder. Whoever offers the lowest production cost gets the order (Carlos, Philippine Fair Trade Network – interview).

The case of the NGO partner of the CSO Network that ventured into chicken production also seemed to expose the limitation of the social enterprise model. It seemed the social enterprise was confronted with the same supply problem that artisanal handicraft producers faced. That is, household-based chicken farmers that were organised could not supply the volume required by a major fast food buyer:

One of our partners in Mindanao put up a separate arm for their chicken production. They supply to a roast chicken food company, they seem to be doing well although I heard they also face challenges in terms of sourcing chicks. They learned that they cannot produce as much as the demand ... they have idle time because they cannot source chicks. Of course

that affects their operations because they have overhead (Dante, CSO Network – interview).

4. Beneficiaries and scope of operations

Although the data looked impressive relative to the limited resources on which the 13 SEOs operated over the years, the number of poor families and individuals reached would have comprised only a small proportion of the poor living below the poverty line.

Table 9.5 shows a snapshot of the beneficiaries and scope of operations of the 13 research participants. For example, among SE IMOs, the Fair Trade Handicraft Producers' Association had 25 CBE partners with 825 worker-producers in 2012; this translated to an average of 33 individuals benefiting from each locality where the CBE partners operated, while the farmer-beneficiaries targeted by the Philippine Fair Traders' Association comprised less than 1% of the 1.8 million farmers living below the poverty line in 2009.

Among SE FIs, the number of beneficiaries reached in rural areas was also less relative to the magnitude of the poor. For example, using the total number of poor families (287050 households) served by the Foundation for Equitable Development from 2001 to 2007, this accounted for only 7% of the 4 million families living below the poverty line in 2009. Using the CSO for Integrated Rural Development's microfinance data in 2010, while it operated in 142 villages in 19 municipalities, an average of only 19 individuals per village were active borrowers. The CSO Co-operatives Federation claimed that as of 2010, its microfinance lending program had served 1.02 million individuals through 1,761 organisations that borrowed from the Federation. This would have comprised 4% of the 23.1 million people living below the poverty line in 2009.

Based on its electronic database, the CSO Network had 600 members or 37.5% of 1,600 that had some kind of social enterprise activities. However, it seemed that very few of these were members of either the NGO-PO Social Enterprise Network (38 members) or the Philippine Fair Trade Network (31 members). Hence, despite the constant promotion of social enterprise or social entrepreneurship, it seemed that, so far, very few had embraced the concept.

5. Unintended beneficiaries and consequences of SE development

While the SEOs had intended beneficiaries, there were also unintended beneficiaries and consequences. There were: *private sector intrusion into market spaces created by social enterprise; killing the initiatives of SEs to improve the economic situation of CBEs; landowners as accidental beneficiaries of fair trade; larger community interest against NGO project; and changing NGO-PO values and perspectives regarding enterprise and away from the bleeding heart mentality.*

Table 9.5: Number of beneficiaries and scope of operations

SE intermediary marketing organisations	Reach
1. Fair Trade Handicraft Producers' Association	in 2012
Number of CBE partners	25
Household-based workers and producers	825
2. Organics Marketing Enterprise	
Organic farmers co-operatives organised by CSO Partnership for Sustainable Development	data not available
3. Philippine Fair Traders' Association	in 2010
Micro- and small enterprises	300
Organic farmers co-operatives, target beneficiaries	12,120 farmers across 153 barangays in 23 municipalities
4. Kanlungan Fair Trade NGO	in 2010
Handicraft CBE partners	30
Food community-based producers associations	8
5. Coastal Resource Management NGO	in 2010
Number of community beneficiaries, fishpond & hatchery projects	10
Number of PO partners	14
Barangays covered	7
SE financial intermediaries	Reach
6. CSO for Integrated Rural Development	in 2010
Number of clients	3,310
Number of active clients	2,735
Number of provinces	4
Number of municipalities	19
Number of barangays	142
7. CSO Partnership for Sustainable Development	in 2010
Community-based members and partner NGOs	300
8. Foundation for Sustainable Local Economies	in 2010
Cocobind	50 HHs and 894 women
Microfinance	149,705 micro-entrepreneurs, of which 85% women
9. CSO Co-operatives Federation	in 2010
Member organisations	122
Individual beneficiaries	1.02m
Organisational beneficiaries	1,761
10. Foundation for Equitable Development	from 2001-2007
Microfinance and enterprise loan beneficiaries,	253,000 households
Potable water beneficiaries	34,000 households
Number of projects, 2001-2010	1,367
Social economy networks	In 2011
11. CSO Network members	1,600
Members with social enterprise activities	600 or 37.5%
12. NGO-PO Social Enterprise Network members	38
13. Philippine Fair Trade Network members	31

Private sector intrusion into market spaces created by social enterprise

The emergence of fair trade, microfinance and organic agriculture was effectively an incursion of the private sector into the spaces created by social enterprises. For example, commercial rice suppliers jumped onto the organic rice bandwagon to compete with the Organics Marketing Enterprise:

In the beginning, when we first introduced organic rice, the market was open, it was not saturated yet. So, we distributed organic rice in large supermarkets ... rice from Bicol, Bukidnon and other communities. We were the first one to label our rice 'organic' in the market. When commercial suppliers saw that our products were moving, they all jumped into the bandwagon. They started labelling their products organic but then there was no one to certify that theirs was indeed organic. Under the recently passed Organic Agriculture Act, that is now prohibited ... even we cannot claim anymore unless we are certified as a distributor of organic rice products. On the other hand, in the mainstream market, many claim that they are organic. So sometimes we think it's unfair because we follow the law but they're the ones claiming they're organic (Ricardo, Organics Marketing Enterprise – interview).

In the international fair trade market, private sector intrusion was also observed by Gertrudes:

Many businesses now, commercial, mainstream, they work it out to get the fair trade seal. It's a threat because we do not know who the certifying body is and how they go about it and their capacity in terms of production. What if they become fair trade? Compared with us, they are not community-based (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

Although the operations of SE FIs appeared more viable than SE IMO, their long-term growth might be affected by counter movements against social enterprises supported by SE FIs. Private sector intrusion was not only true for organic rice farmers but also for community-based organic fertiliser producers. As Juancho pointed out:

For other social enterprises, the challenge is the competition – attaining the scale that would challenge the mainstream corporate firms. Even big players are already into organic fertilisers. They're joining the organic bandwagon. There may come a time when social enterprises that are into organic fertiliser production, organic farming and organic technologies will have to re-evaluate their market strategy because a lot of companies

coming from the mainstream, the big corporate players, are now poised to compete even in the branding of the organic products and practices. They will have to plan out the next mile or stream of operations that will define their long-term engagement (Juancho, Foundation for Sustainable Local Economies – interview).

At the same time, competition from commercial banks, presumably from the USAID MABS-assisted banks, was driving microfinance interest rates down:

We're not very profitable but it's enough to cover all of our expenses and to have a small surplus. Because we are a secondary type of organisation, we cannot increase our margins. If we increased our lending rate, our member-organisations would be affected because they won't be able to increase their rate to their members below. And besides, they might go to other lenders. Although they patronise the co-operative's services, they might go to others that offered much lower rates if they had a need for much bigger loans. The growth of FPSDC is not that fast, and there are new players coming in – the private commercial banks. They are going into microfinance so they become our competitors. Their interest rate is lower than ours. So, instead of our members going to us for assistance, it's good business sense to go to them (Rosalinda, CSO Co-operatives Federation – interview).

Thus, as already mentioned, the co-operative federation planned to expand its market by offering microfinance to the unserved fisher folk sector in Mindanao:

We want to develop a microfinance product for the fisher folks in Misamis Oriental province. The Macajalar Bay is huge and there are so many fishers but it seems that no one is assisting them in enterprise development. So we're studying types of financial products that we could offer them (Rosalinda, CSO Co-operatives Federation – interview).

Readying their axe

Aside from hijacking the agenda of social enterprises, the private sector could also 'kill' their initiatives if they saw them going against their economic interests. This seemed to be true for large private sector companies, as well as for micro-enterprises, such as *sari-sari* store owners and community stakeholders, whose livelihoods were affected by an NGO-initiated social enterprise:

Traders are part of the value chain but if there are ambitious farmers who would like to sell on their own and traders kill their initiative, then that's a problem. In fact, in our small endeavour in Mindanao, the traders are already readying their axe (Rafael, Philippine Fair Traders' Association – interview).

We set up a buying station in our areas of operation ... we constructed a building and the original plan was to establish a store that sells inputs for fishponds. But our former business manager opened a retail store and small local businesses in the community reacted negatively: '*You are going to kill us*'. So we told the manager to close it. Even members of the people's organisations complained because some of them owned *sari-sari* stores and they didn't want us to be another competitor. Although the manager justified the store as being located in another area, we told him that the community did not feel it would not affect them. Some of the PO members are into selling gas, some are in rice trading while others have their own small retail stores. So you have these conflicts (Janice, Coastal Resource Development NGO – interview).

Landowners as accidental beneficiaries of fair trade

In the case of the Kanlungan Fair Trade NGO, landowners became unintended beneficiaries of the processed fruit business because the mango fruit growers were landless tenants. Despite allocating a portion of the price to tenants only, the landowners nevertheless benefited from the high price that the NGO paid the mango growers. As Luisa explained:

The Philippines is still a land reform problem ... landlessness is a centuries-old problem and it's really affecting a lot of producers. In fact, this is another context ... it's difficult to actualise fair trade when the farmers are not really able to acquire the lands for their own. It's because you give fair price for their produce but if a big chunk of the income goes to the landlord ... The sharing system in the province is, one-third goes to the landowner, who does not do anything, does not share in the cost of production; while two-thirds goes to the farmer, who shoulders all the cost of production and the labour. For example, we pay PHP25 (AUD0.56) per kilo; one-third of that amount is paid to the landowner. That's why it pains us ... it's hard to give high price to farmers who are not really able to get the full value of their labour ... During our early years, it was frustrating and we got confused: 'What is this? Is what we're doing right?' So what we agreed with the farmers was, we would pay them an extra price but they should negotiate with the landlords that it would be excluded in the sharing agreement (Luisa, Kanlungan Fair Trade NGO – interview).

Larger community interest versus NGO project: The case of the Coastal Resource Management NGO

When the Coastal Resource Management NGO heeded the advice of donors to go into hatchery production and to establish social enterprises, it intended to provide coastal communities an alternative to fishing and to allow their fishing ground to recover. Instead, the hatchery and two

other social enterprises that were set up had unintended consequences on the community as well as on the organisation that they did not foresee. First, the nature of the social enterprises turned out to be not relevant to the economic context of the intended beneficiaries. Secondly, the high investment was not commensurate with the number of community members benefiting from the projects and taken out of the sea for conservation purposes. As Janice said:

The fishpond enterprise, which grew into 31 hectares generated only 10 jobs – so only a few, for conservation purposes, were taken out of fishing at sea. Furthermore, the number of individual beneficiaries is also small compared with the PhP3 million (AUD66,700) worth of investment we infused (Janice, Coastal Resource Management NGO – interview).

Thirdly, the high cost of maintaining the hatchery business was not properly studied, which added to the financial losses of the organisation:

Also, we didn't consider the likelihood of the fry getting sick. In 2009, we had a disease outbreak that affected six hectares. In just two months, we aborted production. In fishpond, it is better to abort the operation than treat the fish because the medicines are more expensive, and you can't be sure of the effect. So, stop operations, all investments made gone ... probably around PhP300,000 (AUD6,700) (Janice, Coastal Resource Management NGO – interview).

Fourthly, rather than strengthening community solidarity and reciprocity, the social enterprises seemed to threaten community cohesion because outsider groups that did not benefit from them and even some beneficiaries themselves, appeared to sabotage their feasibility:

In 2010, we were robbed. We thought that it was an insider job because there were a lot of complaints against our manager. Maybe they wanted him to leave. A week before, they had a good harvest. They even computed how much would be earned. But after a week, everything was gone, we lost again our investment and we incurred a net loss. We had fishpond caretakers, people from the community that were employed, but no one came forward to say anything. So, we investigated, but there were other risk factors that we didn't identify because the board members don't think like business persons (Janice, Coastal Resource Management NGO – interview).

Since the larger community and their local government representatives felt alienated by the development projects of the Coastal Resource Management NGO, it seemed the organisation was regarded as a domineering outsider that did not deserve to be supported. The 'renaming' of a local

village after the name of the NGO by local government officials underscored its perceived disproportionate 'power' over the community:

Another barangay council was very angry at us and claimed that the village had become Barangay Coastal Resource Management NGO because we bought lands and we forbade them to throw garbage in one of our properties. Although the mayor told them that it's not the council's problem because we own the land, the council branded us selfish because we did not allow them to use it as garbage disposal pit. The program manager in the area explained to the council why we refused ... but it's not easy to erase their bias that we are contra-fellows in the community. Perhaps they don't feel yet the economic benefits of our projects (Janice, Coastal Resource Development NGO – interview).

Hence, being 'not part of the community', it seemed some residents retaliated by taking antisocial action against the NGO. The management appeared helpless to seek legal redress since local government officials might give them the cold shoulder:

Some of our dried seaweed stocks were also stolen in the warehouse and just recently a few sacks of copra. I think one reason behind it is that the community does not regard us part of the community. Otherwise, community members would not rob us if we have a good relationship with them. Yes, there's a feeling in the larger community that it's just PO (people's organisation) project, not involving everyone in the community. In fact, our recent consultant told us that the PO has its own project, while we also have our own. But the community does not care about what we're doing. The consultant told us that we should unite because at the end of the day, it's the community-at-large who would assist us, ensure the safety of the business ... so it's like staking their ownership ... because the enterprise is supposed to benefit the community. If the community knows about the business in the area, they would reciprocate. When we get robbed, we can't report to the local authorities because they might say: 'Well, that's your project; the community is not part of your project. You are not transparent with us'. He suggested that we should be more transparent with them and realise that we all belong to the same community. So we're now discussing our projects with the POs and the barangay council (Janice, Coastal Resource Development NGO – interview).

To establish community stakeholdership in the project, the NGO had begun taking steps of discussing the projects with concerned organisations and government officials. However, with the planned closure of the fishpond enterprise, 10 community members and owners of fishponds sub-

leased by the organisation would lose their regular income. How this would further affect community relations and trust remained to be seen.

Changing NGO-PO values and perspectives regarding enterprise and away from the bleeding heart mentality

As a response to their experiences of social enterprise development, Janice believed that changing the perception of NGOs as 'bleeding hearts' was foremost:

We had several social enterprise orientations for the our partner POs so they would have a better understanding of the social enterprise concept ... to help open up their perspective and values because it is a serious endeavour and you have to recover your capital. The thing is, the people have gotten used to borrowing money and not having to pay back. And everyone thinks it's alright because anyway it's NGO ... NGOs have bleeding hearts. So, it is difficult to break that belief and practice in the same community. It's going to be a long process of breaking the NGO habit (Janice, Coastal Resource Development NGO – interview).

Secondly, there should be a clear delineation between NGO projects and social enterprises so that rational business values would not get entangled with the NGO worldview:

It's also difficult to manage a social enterprise if it is embedded in the organisation. It is especially so when you have several program sites. You're bound to leave some things behind. Venturing into a social enterprise activity is like setting up another NGO with its own manual of operations, hiring requirements, compensation, incentives, etc. (Janice, Coastal Resource Development NGO – interview).

Thus, the social enterprise should be run as a stand-alone enterprise to insulate it from the social development mission:

If the social enterprise is embedded in the organisation, there is going to be a compensation issue between NGO staff and social enterprise staff. Business practice allows for incentive packages that are not found in NGOs. If your NGO staff learned that the social enterprise staff had an incentive package, for example getting 10% of sales, there would to be grumblings. You would always be caught in a tug of war because you're coming from an NGO development perspective and you're not used to business practices such as profit-making, collecting loan amortisation, etc. There are so many issues we have to wrestle with (Janice, Coastal Resource Development NGO – interview).

However, the Coastal Resource Management NGO also realised that there could be many trade-offs and consequences that could affect the direction of an independent social enterprise. As Janice elucidated the extent of their cross-cutting development activities, it seemed these could not easily be untangled without affecting a number of stakeholders:

Actually it's all messed up because the operations of the social enterprises are divided between the social development unit (loans for PO members, who are seaweed producers) and social enterprise unit (marketing). Our loan fund is coursed through people's organisations and they are also responsible for collection ... When it comes to buying and marketing, the business manager comes in. It's a real headache, we don't know how to harmonise the work.

The board has decided years ago to set up a separate social enterprise organisation but it hasn't threshed out yet the details ... what's the form, whether it is going to be a corporation with co-operative principles, or set it up as a co-operative, foundation, etc. Although the board has decided that the social enterprise would be spun off from the organisation ... the staff has some concerns, like our former manager: 'Would it be able to uphold the mission for the fishers and the poor, that the earnings would benefit the poor? What if the new set of board members had a different orientation and managed it like a corporate business, what would happen to the development work support? What if they take advantage of the social enterprise and change everything without taking into account the work done in the community--the CB-CRM. What if they don't want to give back to the community?' Those are the aspects that the staff want to protect (Janice, Coastal Resource Development NGO – interview).

If the business centres were to be spun off as separate social enterprises, Janice said that their biggest challenge would be how to make the POs co-owners and gain decision-making power:

Our biggest problem, however, is how to make the POs co-owners by investing capital. It's not possible to just let them (PO members) in ... so what is the mechanism to allow them to gain ownership? You can teach them management but they would still be hired personnel. They cannot decide ... they have limited power. We want them to be owners of the business and we agreed that they should invest little by little. If they invest, they will have participation in the decision making. That hasn't happened yet, although they now have the technical skills to operate the business. But, they cannot manage the business yet. That's one of our challenges (Janice, Coastal Resource Management NGO – interview).

However, as the experiences of veteran SE IMOs had shown, changing values and perspectives would be, as Rafael always repeated during the interview, ‘easier said than done’. The next section discusses the findings pertaining to the fourth research question about the opportunities available to social enterprises.

Opportunities for social enterprises

Despite the many challenges that needed to be overcome, research participants saw a number of opportunities for social enterprises:

1. *Power of a critical mass of enterprises.*
2. *Market linkages with industry players.*
3. *Vanishing mutual distrust and increasing partnership among value chain actors.*
4. *Enabling policy environment.*
5. *Increased social enterprise and fair trade awareness.*
6. *Self-reliance for NGOs.*
7. *Building local economies.*

1. Power of a critical mass of enterprises

Rafael and Carlos believed that, since the MSME sector had reached a critical point, fair trade shops would have a range of competitive products that could be offered to the local market:

We, at this point, believe that we already have what you call a critical mass of enterprises producing a range of products that can now be marketed all over the country (Rafael, Philippine Fair Traders’ Association – interview).

Also, there seemed to be more scope for fair trade producers to reach the smaller retail shops, school cafeteria and boutique hotels rather than retailers in high-end malls:

We tried selling through malls but they said they have their CSR ... but the small shops are very open [to us] ... like this shop near a high-end mall, they sell our products and they have their own ... they sell fair trade products from Luzon ... indigenous products ... so, they’re like an extension of our fair trade store. I think they promote fair trade through Internet. We also have items in a boutique hotel and we’re planning to explore more school canteens for our food products (Luisa, Kanlungan Fair Trade NGO).

Coupled with sustained promotion and advocacy, they believed that a new generation of ethical consumers could be transformed to patronise fair trade goods:

Another opportunity is that we continue to get invitations from the educational sector, business sector and social development sector to speak, promote and advocate fair trade (Gertrudes, Fair Trade Handicraft Producers' Association – interview).

What's interesting in what we do is that we reach out to the young, the school children. When we go to schools, we have to preach these things ... every opportunity, we mention fair trade. Surprisingly, we see that there are some changes, slowly (Rafael, Philippine Fair Traders' Association – interview).

Ricardo agreed that social enterprises needed more promotion to market their products. While fair trade and specialty shops provided opportunities for CBEs, he believed that cracking the mainstream market was paramount to achieve significant economic impact. Because of the recent changes adopted by the organisation, he said that various stakeholders saw the importance of promotion and advertising to open new markets for organic rice producers.

So one good thing that came out of the policy 'No PO, no delivery', especially the donors, is they became aware of our need to promote the products. What I noticed based on my observation is that donors are more concentrated on production but then if you're more on production and there's no promotion, where would you bring your products? Actually, we are already talking to some partners to help us in product promotion and awareness (Ricardo, Organics Marketing Enterprise – interview).

2. Market linkages established with some industry players

Due to the Organics Marketing Enterprise's continued promotion and advocacy of organic rice and fair trade, supermarket buyers had become aware of its work with farmers. While they seemed to have become a poster social enterprise for large retailers' CSR, the organisation welcomed it because of the advantages it bestowed:

During CSR conferences, they would introduce us as a foundation serving farmers. We are now given a kid-glove treatment. So it's become easier to approach buyers when we have new products. But listing fees will always be there. For example, one of the buyers had become more lenient. 'Okay, you get your new product in. See how you can make it move'. They no longer ask us for support ... not too often ... like for anniversary support, opening of a new store, that's PhP15,000 (AUD330) invoice deduction. Then there's all kinds of support: back to school sale, summer sale, etc. Although sometimes we get discounts because we explain to them that we are not commercial but an NGO helping

farmers. So instead of deducting PhP10,000 (AUD220) like all the rest, they would ask PhP5,000 (AUD110) from us. If we were commercial it would be a different story (Ricardo, Organics Marketing Enterprise – interview).

However, since the Organics Marketing Enterprise does not have a merchandiser in supermarkets, individual consumers are not educated on the organisation's social mission or the health benefits of organic produce. Hence, the organisation was banking on accessing much-needed capital for promotion.

As regards the Coastal Resource Management NGO, it, too, cited the relationship it had established with major players in the seaweed industry as opening the doors to seaweed farmers. Since the organisation was directly connected to exporters, they could offer a higher buying price to seaweed producers compared with local traders. Additionally, the NGO could partner with other private sector suppliers to meet volume demand:

Our agreement with the seaweed farmers is that we will buy higher than our competitors by PhP.50 to PhP1. That's why it's good to be linked with industry players. You're selling price is also higher compared with local buyers. We attend industry conferences – there's a national conference on shrimps, seaweeds. That's where the industry players can be found. And some are willing to partner with us so, the idea that that if you're a competitor, they will not talk to you is wrong. For example, if others cannot support the volume ordered, you can be partners. The other player will negotiate with you because you're the supplier. They will have a commission, of course. But what I mean is, you don't close yourself from the private sector because you can't relate with them ... well, actually you can negotiate with them (Janice, Coastal Resource Management – interview).

3. Vanishing distrust and increasing partnership among value chain actors

Lorna believed that social enterprises had the potential for eliminating 'mutual distrust' among the economic actors in the value chain. She said that if this could be overcome, then it would redound to everyone's benefit:

When CBEs are engaged directly, it will be easier for them to understand how to relate, how to engage in the dynamics between supplier and producer, and supplier and the private sector. And, hopefully, the mutual distrust will vanish ... The communities will realise that they're not always being taken advantage of by the big companies, while the big companies will not think of the small producers as cheaters, etc. So the goal is to establish a

transparent business relationship that is good for everyone concerned. One of the things we're going to study is the value chain of different players (Lorna, NGO-PO Social Enterprise Network – interview).

4. Enabling policy environment

The favourable policy environment for some of the agricultural subsectors being supported, such as the coconut coir sub-industry and organic agriculture, was also seen as advantageous to social enterprises. For example, the Foundation for Sustainable Local Economies said that the policy environment under the Benigno Aquino, Jr. presidency (2010 to 2016) had opened up opportunities for the coconut farmers supported by the foundation. Hence, it would assist coconut farmers in lobbying government support for new technology, farm-to-market roads and capability building:

If we are not be able to take advantage of the coir subsector opening until 2016, a lot of small to medium producers might have to fold up operations. We have to take advantage of the next five years' enabling policy environment in terms of capital expenditures for state-of-the-art machineries and capability building in communities so that economically viable scale of operations could be achieved, and at the same time employ the widest population in coconut areas. Also, the replacement of the coconut stocks is an issue as well as farm-to-market roads needed to increase coconut husk utilisation (Juancho, Foundation for Sustainable Local Economies – interview).

For its part, the CSO Partnership for Sustainable Development believed that the organisation was creating more opportunities for assisted CBEs, such as being involved in the promotion of the health benefits of organic rice and linking them with a wider market.

5. Increased social enterprise and fair trade awareness

Rolando viewed the global trend towards social enterprise and social entrepreneurship as a 'great opportunity' because 'businesses have opened up to NGOs' and 'people are becoming more aware of fair trade and the bottom-of-the-pyramid'. Hence, social enterprises could 'help the poor more sustainably than giving out cash or putting up another philanthropy'. This was also the view of the Foundation for Equitable Development when it shifted to its new strategic program of supporting 100 social enterprises over five years.

Members of the Philippine Fair Trade Network believed that having the country's own fair trade certification system would open opportunities for social enterprises and MSMEs in the

domestic market. Since it would adhere to local standards, such as the minimum wage law, law against child labour, occupational safety and health standards, environmental laws and others, they could easily get accredited and get the fair trade mark on their products. At the same time, the local certification could be their training ground for the more stringent international certification systems:

In fact what I usually tell those who are inquiring or applying to us is: ‘This is a stepping stone towards applying to more sophisticated certification systems like the international label’. Because basically here in the Philippines, we are just looking at the basic requirements of the law for businesses like the minimum wage issue, child labour ... Well, if you pass our audit, it means that your organisation is already set up and will be compliant ... easier to transform your organisation to meet the more stringent requirements of international certification because that is also where we based our own (Carlos, Philippine Fair Trade Network – interview).

6. Self-reliance for NGOs

Dante believed that if social enterprises were managed well by NGOs and CSOs, then the goal of becoming self-reliant might be achieved. However, he also cautioned against the dangers of mission drift and loss of political advocacy and action:

If the social enterprise part, meant to respond to social issues, is undertaken effectively by NGOs and networks then we’ll be more self-reliant. That is the basic strength and opportunity for a social enterprise. The danger is, there might be a drift from the original mission because you’re going into social enterprise just to become sustainable. Social enterprise, in the economic sense, is important but if the non-economic, for example, political rights, participatory governance, will be lost because everyone goes into social enterprise, then that’s a danger (Dante, CSO Network – interview).

7. Building local economies

For its part, the CSO for Integrated Rural Development believed that social enterprises offered a great opportunity for building local economies in the provinces where it operated. Although it would still be the responsibility of local governments, Gabriel believed that building local economies, though ‘constrained’, would move forward ‘rather than retrogress’. And if social enterprises could tap overseas remittances circulating in the financial system and link consumption

to local production in the local economy, the potential for developing local economies would indeed be great. As he explained:

I think even the local sovereigns, the LGUs, desire that their localities develop and not just to serve for their election or political ambitions ... for corruption. Eventually, people will ask, is this place improving our standards of living? And where will the improvement come from? So, people will be demanding. One thing that is attached to that is, the country is simply awash with money circulating in the financial system. And that's coming from abroad ... there is no country in this world that has it. Even if you compare it to China where their overseas remittances comprise the biggest and India, the next ... we are the third. In their economies, remittance is not significant in their GDP. It's just a small portion, although their take in remittance is big globally. In our economy, the percentage of our USD18 billion is huge in the GDP. That means, that amount of money, once it ... you know it creates a new situation in our country in terms of new consumption, perhaps a new situation when it shifts to production ... although its consumption will still be fed by production elsewhere ... but, this is where the opportunity for social enterprises comes in, if they could link the consumption capability with local production, within the local economy, that's a very huge opportunity and at the same time a challenge (Gabriel, CSO for Integrated Rural Development).

Conclusion

This chapter presented the findings of Case Study 2. To reiterate, the purpose of Case Study 2 was to gain a deeper understanding of what it meant to be a social enterprise by triangulating the experiences of Case Study 2 SEOs with Case Study 1 SEOs. While the specific research questions differed for both case studies, the overarching questions to what extent they fit the EMES SE concept and SE FT notion of hybridisation informed the discussion. As contended, 10 research participants met the EMES SE criteria and were categorised as being market-oriented SEs; while the three CSO networks met the non-market SEO category by providing unpaid services to both market-oriented and non-market-oriented SEOs and communities. However, while 10 SEOs were found to hybridise the three economic poles, only six believed they were social enterprises because they were engaged in the market sector. All research participants seemed to perceive that social enterprises are organisations that are in the market, believe in a triple bottom line or fair trade philosophy, generate income for communities, and support their parent NGO's social mission.

This finding appeared at odds with the European understanding of the social enterprise but seemed to accord with the US understanding of social enterprises that compete in the market sector.

From the perspective of the EMES SE concept, generating 100% of income through the provision of goods and services in the market is not precluded as long as the social and political dimensions are not sacrificed. In reality, however, this is not easily achieved as the experiences of SE IMOs and CBEs showed. While the economic dimension appeared to be easily achieved relative to the social and political dimensions, being in the market meant trading off aspects of the latter dimensions. Furthermore, due to the pressure of becoming financially independent from external funding, most of the participants seemed to have accepted or taken for granted the political and economic structures that stunt the growth of the Philippine economy and prevent the emergence of local industries. Instead of transforming unjust structures, the accent appeared to be one of capturing wealth through the market. Thus, organisational isomorphism, through market co-optation, seemed to be a stronger pull than hybridisation.

This naïve belief in the market appeared similar to the unfounded exuberance of the private and public sectors in developed countries that social enterprises can be a profitable vehicle for welfare services contracting. As discussed in earlier chapters, the turn to social enterprise development was an international donor-driven agenda supported by governments in the West that believed that SEs can address social and economic exclusion through the market. Thus, the utilitarian view that SEs can generate employment and create wealth for poor communities, and ensure the financial independence of NGOs is perpetuated. SEs and CBEs were expected to master the business tools to succeed. At the same time, NGOs are also expected to run their operations as businesslike as possible to ensure maximum efficiency and development effectiveness. The European understanding of the social economy, however, has a more modest ambition. SEOs, and in this case, SEs are seen as complementing the functions of the market or the state. While some may compete with the private sector, it is acknowledged that their limited resources and social ethos constrain them from competing successfully in the market. Again, these were evident in the experiences of SE IMOs and SE FIs in this case study. Although SE IMOs and SE FIs were able to assist CBEs, their survival remained dependent on the market. Additionally, although some of them have been in social enterprise development for more than two decades, the general finding is achieving financial independence remains elusive.

Because the focus has been on achieving financial independence, the dream of establishing alternative visions of society seemed to have been replaced by pragmatic considerations and for some, a critical social (science) analysis of the economy had been replaced by economic priorities relating to analysis of the market's value chain. Through the latter, both SEs and CBEs were

expected to enter the mainstream market and become viable enterprises in partnership with the private sector. However, as the findings here showed, surviving in the market was fraught with challenges that were similar to the experiences of SEs and FTOs in developed countries. On one side, CBEs were small-scale activities run by disadvantaged groups who have to learn market values alien to their way of life. While farmers' co-operatives appeared to be more entrepreneurial and empowered compared to informally organised handicraft producers, they were found to be dependent, too, on SE IMOs for their market. On the other side, SE IMOs and SE FIs were found to lack the human and financial resources to compete against savvier competitors. Additionally, they were hard pressed to eschew their social ethos in favour of market values.

Although SEOs were able to carve spaces in the market, which make them pioneers and social innovators akin to the FT market initiative, encroachment by the private sector was also found. Thus, with their superior knowledge of the market and capital, the private sector appeared to be the ultimate beneficiary of all the subsidies, capability-building services, standards and advocacies that went into the creation of niche markets. Despite these and the many challenges facing SEs, Case Study 2 research participants believed that there were enough opportunities to push boundaries to benefit CBEs and marginalised communities. The most problematic of the SE dimensions, however, was the political dimension. While SE FIs received public sector financing for some of their poverty reduction programs, SE IMOs appeared to have carved their market niche without any government support at all. With weak state regulation, SE IMOs were furthermore outmanoeuvred by private corporations. Although fairly trading SE IMOs have established recently a partnership with the Department of Trade and Industry to help create a domestic fair trade market, lowering the FT standards to a minimum of five was an admission that existing laws meant to protect labour, the environment, and those that penalise unfair trading practices were not being followed.

The final chapter draws together the findings discussed in Chapters 6, 7, 8 and 9 in light of the literature and theory reviewed in Chapters 2, 3 and 4. It highlights the study's main conclusions and their implications for further study.

Chapter 10

Conclusions and Implications

As stated in Chapter 1, this study endeavoured to develop an in-depth understanding of the Philippine social economy and its contribution to deepening economic democracy and promoting sustainable social development. It sought to answer two major research questions pertaining to the nature of the Philippine social economy and how market and non-market oriented SEOs operated. The study began by reviewing the state-of-the art research in the UK, USA, Australia and EU as a region and chose the European understandings of the social economy as the overarching theoretical framework to study the nature of the Philippine social economy and the operations of market and non-market SEOs. While the Philippine social economy was the *phenomenon* under study, broader national policy, political dynamics, social structures and economic factors formed the *context* in which the *case study* of particular organisations took place. Thus, the study utilised a complex case study methodology to generate a holistic understanding of how Philippine SEOs operated within the tripolar economy and how the wider regulatory and market environment enabled or restricted their activities. The social economy as an intersection within the plural economy and the process of hybridisation has been well argued by its supporters. They posit that the social economy is in a constant state of tension with the state, market and community/household poles. This tension and the balancing act that ensues are thought to ensure hybridisation, thereby preventing organisational isomorphism and state co-optation. However, except in the UK where the framework was applied to map the UK civil society, there has been little empirical study to understand the process of hybridisation and the challenges encountered by SEOs in blending the disparate values and resources of the three economic poles. This study filled this void and demonstrated the theoretical relevance of the plural economy framework in profiling the Philippine social economy. By using Yin's (2009) approach involving multiple case studies with embedded multiple units of analysis, the study illuminated the process of hybridisation, both at the macro and micro level, and among an array of SEOs, including CBEs, SE FTs, SE IMOs, SE FIs, and SENs, that combined market-oriented and non-market-oriented activities. The findings discussed in the previous chapters demonstrate the wisdom of choosing multidimensional theoretical and methodological approaches.

The chapter draws together the findings discussed in Chapters 6, 7, 8 and 9 in light of the literature and theoretical approaches reviewed in Chapters 2, 3 and 4. The chapter is structured in

three parts: the first compares and contrasts the nature of the Philippines social economy or the third sector with the UK, USA, Australia, and EU as a region. The cross-comparison included the five criteria discussed in Chapters 2 and 3: the historical emergence of the social economy, major conceptual approach or framework, legal and regulatory environment, scope and contribution to the economy, and challenges and critiques. The findings of Chapter 4 and 6 relating to the six research questions on the Philippine social economy are integrated and whenever relevant, findings of Case Study 1 and 2 are interlaced in the discussion. Part 2 summarises the findings relating to the hybridisation process and the experiences of case study participants as social enterprises. It reflects on the theoretical framework and based on the empirical evidence, synthesises the dialectical process that informs theory and practice. Part 3 highlights the main conclusions and their implications for further study.

Part 1: The nature of the Philippine social economy vis-a-vis industrialised Western countries

1. Historical roots and discourses that construct the social economy and social enterprises

Despite the particularities of each country or region, social commentators traced the origins of social enterprises to the notion of religious charity and the self-help ethos of associations founded by disadvantaged groups. The literature review in Chapters 2 and 3 demonstrated the contentious history that the sector had with ruling elites, wealthy individuals, religious institutions and other interest groups. Although the rise of social enterprises might seem to be a new phenomenon, the review showed that new forms of organisations emerge and re-emerge as a form of adaptation by groups affected by socioeconomic crises. The resilience and ability of self-help associations and charities to adapt to the twin failures of the state and the market has attracted the attention of social scientists and governments alike throughout the ages. While social enterprise and social entrepreneurship may be a new form of adaptation by groups left out of or neglected by the market and the state, governments and supporters view it as a vehicle for social innovation that could address the capitalist crisis of legitimacy and accumulation. Hence, early theorising sought to distinguish a third sector that sat between, but outside, the state and the market. Chapters 4 and 6 showed that, similar to the developed West, the emergence of Philippine civil society and social economy also had a contentious history. Whereas SEOs, including co-operatives and mutual associations, emerged largely as a response to the socioeconomic disadvantage in the West, the social actors involved in the evolution of Philippine civil society and social economy organisations

have been more varied and belligerent due to the country's colonial history. But after the 1986 People Power Revolution, a definable social economy sector began to emerge when political advocacy NGOs and people's organisations, aided by ODA money, transformed into development-oriented organisations to pursue their alternative visions of society, politics and economy.

Since business and management schools dominated the early theorising of social entrepreneurship in the West, they focused on increasing the efficiency of associations seeking to address public issues through private means by making them run more like businesses. As Etzioni noted as early as 1973, three years before the Yale study that launched nonprofits to the global stage, third sector organisations were construed to replace the public sector by *providing public goods and services with market efficiency*. With the private sector delivery of welfare services already in place since the US annexation of the Philippines at the turn of the 20th century, it was no longer a debatable issue. Instead, with the opening up of democratic space in 1986, the civil society or social economy has been drawn in to play a central role in socioeconomic development along with the state and the market. Chapter 6 showed three discourses that structured the Philippine social economy, namely, the economic discourse, which is similar to the Anglo-Saxon and US model of social enterprise that assumes success as a precondition for being a social enterprise, the fair trade discourse and the 3BL discourse appropriated by NGOs from the corporate social responsibility discourse. Given the dominance of the economic social enterprise discourse and, despite calls for a different way of valuing social enterprises, social metrics and toolkits that monetise the social impact of social enterprises have been adopted, too, in the Philippines.

2. Structure of the social economy

It was found that in developed countries, large voluntary faith-based associations, new forms of social enterprises, social enterprise networks, co-operatives and mutuals represent the market-oriented social economy subsector. However, it was also found that smaller and unincorporated grassroots associations outnumber the visible market-oriented SEOs. In the Philippines, NGOs and people's organisations contracting with government, MFIs, including co-operatives and private rural banks, religious-owned educational institutions, foundations and social enterprises founded by NGOs and POs were found to structure the market-oriented social economy subsector. Given the varying estimates of the size of the sector, unincorporated grassroots associations would likewise outnumber registered SEOs. These findings demonstrate that the project of monetising the social economy capture only a small subset of organisations that comprise it. Also, the preponderance of small, informal grassroots associations provides a counterpoint against the belief that the social economy can be financialised for state and private sector gain. The enduring character of the social

economy as the sphere that safeguards civic engagement and solidarity appears to live on through these unheralded associations. *Thus, it is concluded that while the social economy or the third sector contributes to society, it seemed that this contribution cannot be controlled, monetised and financialised for state and private sector gain without diminishing the social economy's character as a sphere of love, civic engagement and solidarity.*

3. Most influential social actors and how they exert their influence

In the UK and the EU, the state, together with private sector-initiated social enterprise networks, philanthropic foundations, large voluntary associations and third sector industry research groups were found to be at the forefront of transforming civil society into a market-oriented social economy sector. The UK government has been particularly aggressive in pushing for policies supporting the marketisation and financialisation of the third sector, while the EU is close on its heels. In the USA and Australia, the state seemed less involved and private sector social enterprise networks, large charities and philanthropic foundations appeared to be the leading social actors. While the majority of traditional civil society organisations and small voluntary associations shun the UK government's Big Society program, large charities and social enterprises that initially supported it were powerless to influence its direction and some have withdrawn their support. Social economy researchers and advocates in the EU, who are at the forefront of delivering the social economy agenda, seemed also to be losing the battle to neoliberal champions in government and social impact investment lobby groups. In the Philippines, development NGOs, people's organisations, MFIs, foundations, social enterprises, the Church and INGOs were found to be the most influential social actors along with the state, ODA donors and international development agencies. However, the households of overseas Filipino workers and migrants were found to be the most significant economically.

4. Economic contribution

Chapters 2 and 3 showed that the social economy sector in developed countries contributed to their country's economy but their contribution, however, could not replace job-creating industries since a major aspect of its valuation was based on voluntary labour, donations and state grants. The literature review also demonstrated that there could be leakages since small nonprofits and charitable associations that do not meet the regulatory requirements for reporting are not required to submit financial reports. In the case of the USA and Australia, organisations that distribute limited profits are not counted as SEOs. Similar to developed countries, the Philippine social economy was found to contribute significantly to society. In this study, it is concluded that *the social*

economy appears to be the gel that glues Philippine society together and the annual remittances of the Filipino diaspora – ironically, the millions of overseas workers and migrants who could not find jobs at home – is the life blood of Philippine society. Although the social costs of family separation could be higher than the economic benefits they bring to society, it can be concluded that the impact of the social economy's contribution to economic democracy and sustainable social development is more modest due to the social and economic structure of Philippine society. Additionally, putting a price tag on the contributions of social economy organisations to society debases their most important contributions, i.e., community solidarity, social cohesion, the overseas Filipinos' unselfish gift to their family and, for non-market SEOs, their contribution to transforming society through democratic political action.

5. Legal and regulatory framework governing and supporting the social economy

As shown in Chapters 2 and 3, the UK, Australia, the EU and some US federal states have passed laws to support social enterprises. The Philippines, on the other hand, seemed unique since the 1986 Philippine Constitution enshrined the participation of NGOs and people's organisation in nation-building. This has given birth to a slew of laws and policies (see Appendix B) allowing SEOs to sit in public sector bodies and partner with government and ODA donors. However, despite all these laws, Case Study 2 research participants were clamouring for a social enterprise law similar to the Companies Act of 2006 that created the UK social enterprise brand. While there is a surfeit of laws and policies governing and supporting social economy organisations, implementation and oversight of NGO-PO and public sector partnerships has been weak. Additionally, urban-based NGOs were found to be educating local government officials about existing laws and policies and development programs. However, since NGOs have been drawn to social enterprise development by the dwindling of external funds, civil society's oversight of civil society/private and public sector partnerships has been neglected. This has enabled bogus NGOs, in cahoots with unscrupulous government officials and politicians, to access development funds intended for the marginalised sectors for their own personal enrichment, while large private sector organisations have become unintended beneficiaries of laws providing incentives to community producers and SEOs. Thus, it is concluded that *an effective regulatory environment requires a vigilant civil society with a strong civic rootedness to engage the wider public to take the state and the market to task for the increasing, rather than declining, number of the poor and the continuing diaspora of Filipino workers, who cannot find work in their own country.*

The next section summarises the findings relating to the hybridisation process discussed in Chapter 6 and the experiences of Case Study 1 and Case Study 2 participants discussed in Chapters 7-9 and the theoretical reflection.

Part 2: Summary of findings on hybridisation and theoretical reflection

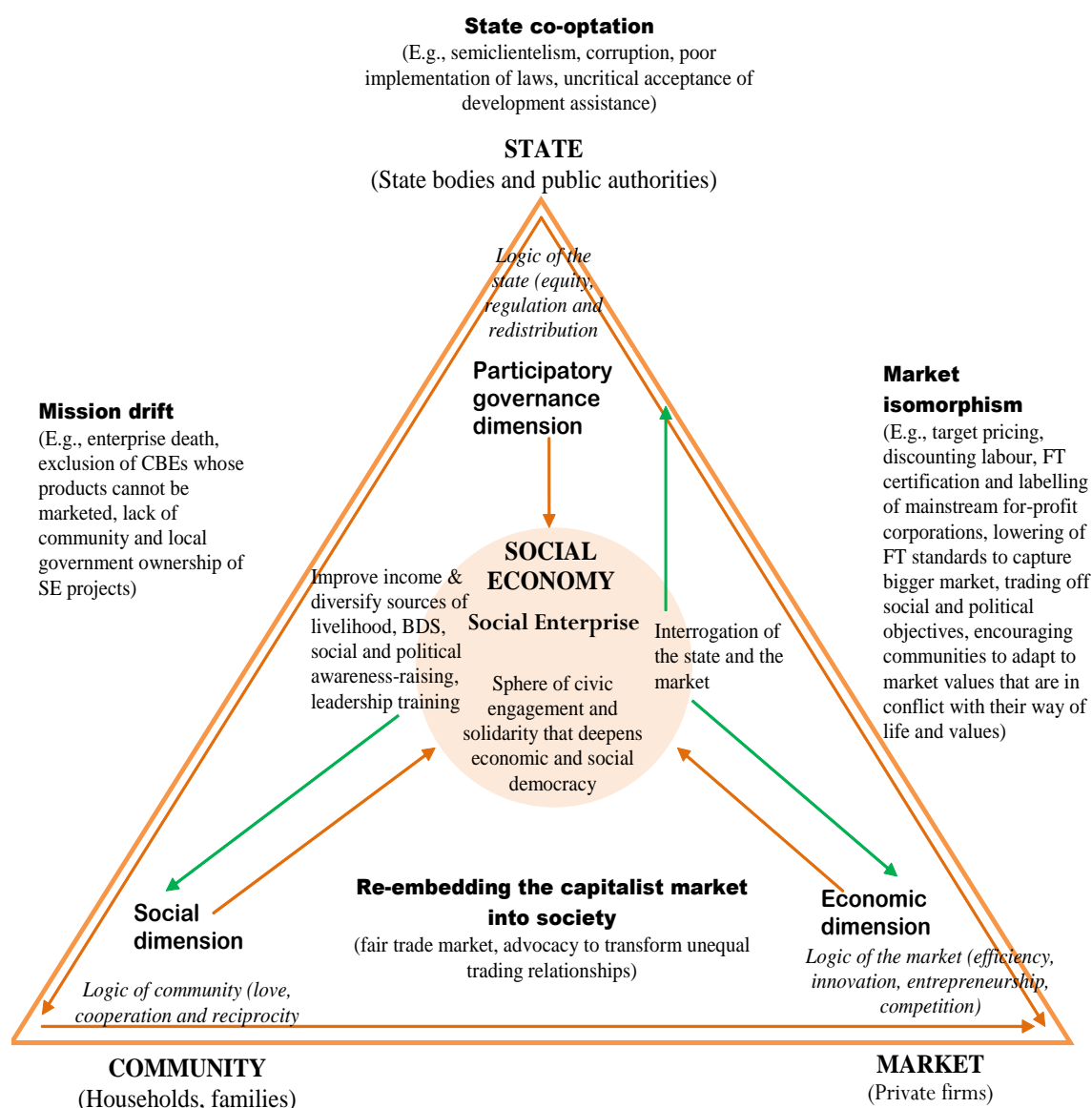
Based on the findings discussed in Chapters 6 to 9, the study concludes that *while hybridisation protects the social economy and the organisations comprising it from organisational isomorphism, the dynamic interaction between various social actors and the economic, social, and political decisions they make, nevertheless leads to forms of organisational isomorphism or mission drift. This is also exacerbated by the social and economic structure and the type of development policy that the government pursues. Thus, while SEs embody the characteristics required by the EMES SE concept, the greater power of the state and the market constrain their ability to survive in the market sector without trading off aspects of their social and political objectives.* The findings showing the hybridisation process and the forms of organisational isomorphism are illustrated in Figure 10.1.

Macro level hybridisation

The findings discussed in Chapter 6 demonstrate that the Philippine social economy and SEOs studied blend the values and resources of the three poles of the economy. However, distinguishing market-oriented and non-market oriented SEOs into distinct categories was difficult to do. With many interrelated social and economic problems, both market-oriented and non-market-oriented SEOs were found to routinely combine market and non-market activities. The blurring of boundaries and interdependence between the public/state, community/household and private/market sectors also seemed more pronounced in the Philippines than in developed countries. The hybridisation process did not only relate to financial assistance and provision of services by NGOs but also to representation in public sector bodies. At the same time, while the national government provided financial assistance to SEOs, large national NGOs also provided financial and technical assistance to local government units. For example, the Foundation for Equitable Development funded local government units' community potable water systems, while the CSO for Integrated Rural Development provided training and capacity building to municipal government officials. Furthermore, ODA donors regularly called for tenders and proposals for NGO-initiated development projects in partnership with local governments. Hence, the social actors and resources that converge in the Philippine social economy ranged from the informal

household production unit to the international/global level that is captured in Pearce's three systems model.

Figure 10.1: The plural economy and hybridisation process



Macro level organisational isomorphism

While SEOs were able to hybridise the three poles, the opposite pull towards organisational isomorphism was also evident. The findings in Chapter 6 demonstrate that hybridisation and organisational isomorphism worked both ways and seemed to mirror each other. In their quest for economic sustainability and financial independence, market isomorphism affected social enterprises. For example, MFIs, whose original mission was to serve the poorest women, were found concentrating in urban areas rather than in regions where their services were needed. With the

dwindling of ODA funds for social development, large civil society networks were found to be cornering development assistance and transitioning into the formal market-oriented social economy subsector rather than the informal, household-based CBEs and producers. Although a seemingly conducive legislative and regulatory environment is in place for civil society/private and public sector partnerships, SEOs were found to be weak in interrogating the state with regards its neoliberal development policies and the unfair trade practices of the international and local markets. The greater power of the state and the market to co-opt the social economy's democratising agenda appeared to have muzzled its voice to propose alternative visions of society. Thus, political action that questions and brings the state and the market to account has been replaced by a belief that, by working within the market, SEOs and CBEs can eliminate social, economic and environmental harms.

Social enterprise level hybridisation and organizational isomorphism

The findings discussed in Chapters 7-9 also demonstrate the competence of SEs to hybridise the values, social support and human resources obtaining from the three economic poles. The EMES SE framework, in the context of the FT concept, shows that SE FTs embodied the characteristics expected of SE FTs. As well, non-fairly trading SEs proved that they, too, embodied, in different degrees, the characteristics described of SEs from the EMES SE perspective. Although a few (e.g., SE FIs, Buri Handicraft Producers' Co-operative) appeared to be more successful than others in maintaining the tension between the three poles, most SEs struggled to blend the economic dimension with the social and political dimensions. Additionally, only Buri Handicraft Producers' Co-operative appeared to have influenced a private mainstream buyer to embrace the social economy worldview.

Economic/entrepreneurial dimension

To reiterate, the economic dimension includes the following three indicators: economic activity, economic risk, and presence of paid staff. All market-oriented SEOs studied were found to combine an economic activity (e.g., fair trade marketing, trading in financial services), take economic risks (e.g., product research and development, financial leveraging, borrowing to finance working capital), and, for some, maintain their organisational integrity (maintain paid staff) despite their financial insecurity. For fairly trading SEs like SAFRUDI, its CBE partners and FT SE IMOs in Case Study 2, this dimension included trading in economic good, public good and trust good. Furthermore, most of the SEs studied competed with private sector businesses, or against each other as SE FTs. One of the distinguishing characteristics of Philippine SEs found in this study is that

in contrast to developed countries, where volunteer labour and worker training for insertion in the formal labour market are important aspects of their social economy, piece rate work and informal household labour define the type of employment generated by Philippine SEs. Additionally, fair compensation included not only the mandated regional minimum daily wage rates but also the community wage practiced by the informal economy sector. The CBE partners' household production system also clearly showed the interface between formal and informal organisations in the social economy, hovering between the community/household pole and formal private market pole.

Social dimension

The indicators under this dimension included an explicit aim to benefit the community at the same time promote stakeholdership, an initiative launched by a group of citizens or CSOs, and limited profit distribution to deter profit-maximising behaviour. All of the SEs studied were found to adhere to this dimension in different degrees. While their social mission varied, all case study participants promote sustainable development, adhere to social and economic justice principles, such as fair trade and the 3BL philosophy, and promote the socio-economic well-being of communities. In the case of the second and third indicators, NGO-established SEs were organised as nonprofit, non-stock corporations or foundations; while others formed for-profit corporations to meet legal requirements. Although they were constrained by the nonprofit clause, it seemed that indirect profit distribution is done through higher prices for goods and products bought from CBEs, BDS subsidies, and discounts and rebates on interest payments. However, at the CBE level, which are either organised as a formal co-operative or informal producers' or farmers' associations, limited profit distribution is practiced. In the case of SE FTs, such as SAFRUDI and the SE IMOs in Case Study 2, FT principles were included as indicators to analyse the extent to which they are FT organisations. Again, their adherence to FT principles varied due to the pressure of surviving the limited FT market for handicrafts discussed in Chapter 2. However, despite trading off certain aspects of the social dimensions – e.g., target price setting and discounting labour, dropping CBE partners whose products have become unmarketable – what remained consistent among the different case study participants was the struggle to hold onto to their social ethos and values that make them distinct from market sector organizations. This was exemplified by SAFRUDI, the Organics Marketing Corporation, and Kanlungan Fair Trade NGO, among others.

Participatory governance dimension

This dimension includes the following indicators: a high degree of autonomy from public authorities and private organisations that subsidise operations of the enterprise; partners and members have the right of ‘voice and exit’; a decision-making power not based on capital ownership but on one-member-one vote principle; and a participatory nature, which involves parties affected by the activity to advance democracy at the grassroots level through economic activity. Again, meeting this SE criterion varied among the different SEs studied. For example, SAFRUDI and CBE partners frequently invoked the FT principle of transparency and respect, but due to the frailty of the FT market, exercising the right of voice and exit seemed to militate against them. In the case of the NGO for Coastal Resources Management, donor-initiated SE development projects engendered community discord.

Theoretical reflection

As stated above, hybridisation and organisational isomorphism worked both ways and mirrored each other. The findings from the experiences of case study participants proved that maintaining the tension between the three poles is a challenging task. This is perhaps the reason why SE FIs were reluctant to identify as social enterprises, while at the same time believing that only those that are competing in the market sector, such as SE FTs, SE IMOs, and CBEs, that would generate profit to attain the financial independence imposed by dwindling donations and lack of state support can be bona fide labelled social enterprises. But, while the SEs studied in Case Study 1 and Case Study 2 demonstrated the entrepreneurial acumen celebrated in the literature of social entrepreneurship, the unreformed capitalist market system remained the final arbiter. Hence, forms of market isomorphism, mission drift, including death of CBEs, were also observed.

Due to the pressure of becoming financially independent from external funding, most of the participants seemed to have accepted or taken for granted the political and economic structures that stunt the growth of the Philippine economy and prevent the emergence of local industries. As stated earlier, since the focus has been on achieving financial independence, the dream of establishing alternative visions of society seemed to have been replaced by pragmatic considerations and for some, a critical social (science) analysis of the economy had been replaced by economic priorities relating to analysis of the market’s value chain. Thus, by learning business tools and instruments, SEOs and SENs alike believed they could survive in the mainstream market. However, as already discussed previously, the European understandings of the social economy and social enterprises appeared to have a more modest ambition. It is acknowledged that given their limited

resources and the social ethos that govern their operations, SEs are viewed as complementing the functions of the state and the market. While financial independence through trade of goods and services in the market is not precluded, the social and political dimensions are expected to temper profit maximisation. The naïve belief in the market appeared similar to the unfounded exuberance of the private and public sectors in developed countries that SEs could be profitable vehicles for welfare services contracting. In the Philippine case, social enterprise was promoted as the solution to NGOs' dependence on external funding, economic underdevelopment, and poverty. But, as the findings demonstrated, achieving financial independence remains elusive, and the economic contribution modest.

As the experiences of Philippine case study participants showed, surviving in the market was fraught with challenges that were similar to the experiences of SEs and FTOs in developed countries. Although they were able to carve spaces in the market, which make them pioneers and social innovators akin to the international FT market initiative, encroachment by the private sector was also found. Thus, with the latter's superior knowledge of the market and capital, the private sector appeared to be the ultimate beneficiary of all the subsidies, capability-building services, standards and advocacies that went into the creation of niche markets. Although there might be opportunities to push boundaries to benefit CBEs and marginalised communities, it seemed that it would require more than just mastering the tools of business. *While understandably social economy organisations serve the urgent social and economic needs of the poor, it is concluded that reviving the critical edge of the social economy seem urgent, too. After all, the social economy comprises two subsectors, each playing an important role in advancing socioeconomic justice and political democracy.* The next section draws the main conclusions and the implications of the study.

Part 3: Main conclusions and implications

Main conclusions

In general the study concludes that:

1. While the social economy or the third sector contributes to society, it seemed that this contribution cannot be controlled, monetised and financialised for state and private sector gain without diminishing the social economy's character as a sphere of love, civic engagement and solidarity.
2. The Philippine social economy appears to be the gel that glues Philippine society together and the annual remittances of the Filipino diaspora – ironically, the millions of overseas workers and migrants who could not find jobs at home – is the life blood of Philippine

society. Although the social costs of family separation could be higher than the economic benefits they bring to society, it can be concluded that the impact of the social economy's contribution to economic democracy and sustainable social development is more modest due to the social and economic structure of Philippine society. Additionally, putting a price tag on the contributions of social economy organisations to society debases their most important contributions, i.e., community solidarity, social cohesion, the overseas Filipinos' unselfish gift to their family and, for non-market SEOs, their contribution to transforming society through democratic political action.

3. An effective regulatory environment requires a vigilant civil society with a strong civic rootedness to engage the wider public to take the state and the market to task for the increasing, rather than declining, number of the poor and the continuing diaspora of Filipino workers, who cannot find work in their own country.
4. While hybridisation protects the social economy and the organisations comprising it from organisational isomorphism, the dynamic interaction between various social actors and the economic, social, and political decisions they make, nevertheless leads to forms of organisational isomorphism or mission drift. This is also exacerbated by the social and economic structure and the type of development policy that the government pursues. Thus, while the case studies embody the characteristics required by the EMES SE concept, the greater power of the state and the market constrain their ability to survive in the market sector without trading off aspects of their social and political objectives.
5. While understandably social economy organisations serve the urgent social and economic needs of the poor, it is concluded that reviving the critical edge of the social economy seems urgent, too. After all, the social economy comprises two subsectors, each playing an important role in advancing socioeconomic justice and political democracy.

Implications:

As commentators have argued repeatedly, the social economy alone cannot be effective in re-embedding the market system into society. To be an effective interlocutor of the state and the market, it must be buttressed by a civil society that is able to advance critical discourse in a democratic public space. Based on the findings and conclusions, the study offers implications for civil society and policy.

Bringing civil society back in

1. The civic rootedness and moral high ground of civil society to subject the state and the market to critical discourses should be regained.
2. Civil society organisations had to transcend their ideological differences and avoid further fragmentation that weakened solidarity and eroded their credibility.
3. Transparency and tighter policing of civil society organisations
4. Stronger backward/forward linkages and networking among market-oriented SEOs was needed.

1. Regaining civic rootedness and moral high ground of civil society

This implies breaking out from the neoliberal discourse that has permeated social enterprise development and regaining a critical language to unleash creative re-imaginings of alternative systems to the dominant neoliberal development model (Dey, 2007; Fowler, 2000; Gibson-Graham, 2006; Moulaert & Ailenei, 2005). Rather than a movement that rectifies the failures of the state and the market (Cho, 2006; Pozen, 2008), it seems that the social economy should be, in Habermasian terms, an offensive social movement for social change (Habermas, 1987). This means that the social economy might have to go back to idealistic projects, such as the strengthening of civic action and solidarity to press for equitable distribution of wealth and an economic development model that do not discount labour, the environment or society. This might require rethinking its relationship with the state and ODA donors and solidarity with other grassroots social movements internationally that propose more radical alternatives to the watered-down sustainable development model. Among these are social movements proposing alternative economic models in Northern countries, such as the sustainable de-growth economics (Latouche, 2007; Martínez-Alier, Pascual, Vivien, & Zaccai, 2010), steady-state economy (Daly, 2007; Jackson, 2011), human economy (K. Hart et al., 2010) and the solidarity economy in Latin American countries (Arruda, 2005; de Sousa Santos, 2006). These models offer a different way forward to de-grow Western economies, while enabling developing countries, such as the Philippines, to pursue sustainable economic development. Founded on social and democratic ideals, these models envision a world that meets every citizen's right to the basic needs of food, health, education and shelter and to lead meaningful lives.

2. Transcending ideological differences and strengthening solidarity

This implies overcoming ideological, cultural, religious and other divides, without denying or suppressing them, in order to work together on larger societal issues through (i) cultivating

citizenship and (ii) strengthening civic agency. Gosewinkel (2010) defines citizenship as 'membership in a political community as well as a form of active behaviour toward the community which constitutes the good and responsible citizen' (p. 140), while Fowler (2010) defines civic agency as 'a predisposition toward, and a capability for, leading life together with others in a society and being concerned for the whole' (p. 151). These concepts seem to imply that the goal of social economy organisations is the formation of autonomous citizens rather than the US social construction project of creating earners and consumers to support the unbridled growth of the free market.

3. Transparency and tighter policing of civil society organisations

Related to the first two implications, it seems that CSOs themselves have to practice what they preach, which is to account for their actions to the general public and not only to their donors and supporters. Even among research participants, very few published their financial reports on their websites. Hence, civil society organisations were also found to be tarnished by their lack of financial transparency and the perceived corruption within them. Instead of governing NGO-PO practices, the Philippine Council for NGO Certification (PCNC) had become a certifying organisation to provide tax breaks to donors of corporate foundations and university research institutes, which in developed countries is a function of the state.

4. Stronger backward/forward linkages and networking

Given the convergence between the fair trade and organic agriculture movements, it seems that there is an opportunity for social enterprises to strengthen their linkages to scale up rather than establish their own narrow niche in the domestic or export market as well as bridge the divide between marginalised rural producers and urban poor consumers. For example, given SAFRUDI's experience as an exporter, the Organics Marketing Foundation can team up with SAFRUDI, while SEs and their CBE partners can link up with the Philippine Fair Traders' Association.

Policy implications

The following policy implications, which are interrelated with the implications for civil society, are:

1. Transformation of the capitalist market as a precondition for social enterprises

As the experiences of SAFRUDI and SE IMOs showed, *being in the mainstream market did not guarantee economic viability*. With cutthroat competition, even large mainstream corporations in well-developed economies with functioning institutions, infrastructure and technology are not assured of continued success (Easterly, 2008; Shane, 2008). Hence, it seems unfair to expect social enterprises

comprising urban and rural poor producers with limited resources to succeed in a poorly regulated political and economic environment.

2. State-led national agro-industrialisation program

No country in the world had developed by blindly following neoliberal prescriptions that even its most hard-nosed supporters found hard to practice (Chang, 2002). Given the limits to growth, it seems that civil society has to renew calls for the national government to develop an agro-industrialisation program that caters to the domestic needs rather than to the already over-supplied developed markets.

3. Creation of a government body that regulates charities and nonprofits

In the absence of a state body regulating charities and nonprofits, the National Anti-Poverty Commission appears to be the prime candidate that can function as the central repository of information of all NGOs, people's organisations and private sector associations transacting with the state for and on behalf of marginalised sectors. To eliminate mercenary NGOs and POs established by private individuals and politicians and abuse of public funds, state agencies and public financial institutions, it is suggested that these public sector bodies be mandated by the state to submit information to the NAPC that can be made accessible and open to the general public. As this study showed, collating databases from various government agencies and CSOs to shed light on the operations of SEOs and public-private partnerships proved an exhausting experience.

Recommendations for further study

This study focused on NGOs and civil society organisations that occupied both the market- and non-market-oriented subsectors of the social economy. While it uncovered the extent of interdependency and blurring of boundaries between the public/state, community/household and private/market sectors, the picture nevertheless remains incomplete. For example, in the West, the social enterprise narrative revolves around the marketisation and financialisation of public services and goods, while in the Philippines, the discourse is not focused on privatisation of social services but on civil society organisations that pursue poverty alleviation programs. The provision of welfare services by faith-based charities and voluntary organisations seems to be taken for granted and not appreciated by either the state or the general public. Because of their traditional function and perceived 'conservatism', they are not considered political organisations like NGOs and POs. Thus, they are sometimes treated cavalierly and discredited in the media by government agencies that support their operations. However, this elides their role in social cohesion or social order and service to society. Hence, research on the contribution of faith-based charities and voluntary

organisations to strengthening family and community cohesion might reform public perception and the way state contracting of faith-based charities and voluntary organisations is organised. Additionally, research on co-operatives and MFI conduits of government's microfinance program for the basic sectors would be an important contribution to the study of the Philippine social economy as it might uncover other problems inherent in poverty alleviation through microfinance. While there have been a few studies on the social and economic impact of microfinance on poverty alleviation, the role of the state is under-researched.

As regards research themes that emerged during data collected in the field that were not included in this study, it would be relevant to pursue the perceptions and aspirations of children of family enterprise owners and producers with regard to the enterprise or home-based production. Another theme that emerged was the multiple memberships of GBP members in MFIs operating in their community to the extent that some members borrowed from an MFI to pay off the loan incurred from another MFI. Since it seems that there is no study yet documenting 'credit pollution' and coercive collection practices of Philippine MFIs, it would be interesting to study this research theme. Additionally, the study could be contrasted with how community-based rotating savings schemes operate, contribute to members' economic well-being, and to what extent this could be 'scaled up' or whether it is even desirable to do so.

Conclusion

This study contributes primarily to the fields of economic sociology, social economy and social enterprise development. As a mixed method, country comparative study, it adds to an in-depth understanding of the social economy and social enterprise phenomena in selected developed countries and the Philippines. By utilising a complex multi-layered case study approach recommended by Yin (2009) and triangulating the experiences of SAFRUDI and CBE partners with Case Study 2 research participants, it provides a thick description of the Philippine social economy and experiences of doing social enterprise that departed from the heroic and self-sacrificing depiction of social entrepreneurs. The study shows that doing social enterprise is, borrowing from a research participant, not as easy as it seems. As the findings demonstrate, translating the vision of social enterprises into reality has been problematic and challenging. Trade offs were observed to be common and poor producers and workers were the first to be sacrificed for organisational viability. However, rather than condemning social enterprise for 'selling out', their experiences seem to validate the Quixotic undertaking of transforming unjust social and economic structures by working within a system that thrives on inequality and ill-being. As a sociological reading of Schumpeter's

(1943) famous 'process of creative destruction' thesis seems to show (p. 83), transforming a pathological capitalist economy in the West to ensure that others equally enjoy the basic needs and conditions for living meaningful lives implies destroying the old social and economic structures and replacing them with new ones. Thus, the promise of the social economy and social enterprise would only come about when the conditions for change are already ripe within society (Schumpeter, 1943; Steyaert & Hjorth, 2007b; Swedberg, 2007) and making it so means continuing advocacy and enlarging the conversation about the unsustainability of economic growth in developed countries while the rest of the world is mired in poverty and political conflicts.

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Appendices

Appendix A: Extant laws institutionalising gaming for charitable purposes, 1936 to 2004

Year Enacted	Title	Pertinent provisions and changes
1936	C.A. No. 28 An act to impose a percentage tax on the gross receipts of theatres, cinematographs, concert halls, circuses, cabarets, race tracks, and other places of amusement	Section 2 waived tax payment if activity was undertaken by or for religious, charitable, scientific or educational institution or association.
1936	C.A. No. 156 An act authorising the Philippine Antituberculosis Society to hold horse races, with betting, for charitable and civic purposes and to promote horse breeding in these islands	One of the first laws mandating a private civic association to generate revenues from gambling.
1946	R.A. No. 72 An act to further amend Act numbered 4130, as amended, regarding the apportionment and distribution of the proceeds from sweepstakes races	Section 4 spelled out the distribution of proceeds according to the following:
		<ul style="list-style-type: none"> 65% payment of prizes including payment to jockeys & owners of winning horses.
		<ul style="list-style-type: none"> 10% operational expenses.
		<ul style="list-style-type: none"> 25% to institutions or organisations engaged in charitable, relief, civic, and health work or work for the improvements of the conditions of the indigent Filipino masses in this country or abroad.
1946	R.A. No. 79 An act to authorise the holding by the Philippine Charity Sweepstakes Office of horse races, with betting, on Saturday afternoons, for charitable, relief and civic purposes	<ul style="list-style-type: none"> From the 65% prize payment, 10% would be deducted for proportional distribution to provinces & cities, except Manila, based on their respective collection of bets. Governors & mayors to utilise allotment for hospitals, other health, social welfare, civic, and charitable work.
		Section 1. Allowed for the first time the holding of horse races on a regular basis, i.e., Saturday afternoons, apart from the dates reserved for private race clubs & chartered civic associations and charities for their own revenue generation. In effect, also allowed the holding of races the whole year through, making gambling a way of life.
1948	R.A. No. 200 An act to provide for the disposition of the proceeds of the grand derby races held by the Philippine Tuberculosis Society	Section 2 provided that for this particular race, the 25% amount allotted for charity would go to disabled veterans, war widows and orphans and to charitable, relief and civic organizations. Allocation subjected to rules and regulations as approved by the President.
		After deducting 10% for administrative expenses, the entire proceeds exclusively went into the funds of the Society.
1948	R.A. No. 309 An act to regulate horse-racing in the Philippines	Institutionalised further state-sponsored gambling by increased further the number of horse-racing days throughout the year. Except for the reserved dates including religious holidays, allowed horse racing on Sundays, 24 Saturdays, and public holidays.

Year Enacted	Title	Pertinent provisions and changes
		Reserved races were: second Sunday and the first Saturday afternoon of each month for races held by the Philippine Anti-Tuberculosis Society; fourth Sunday of February, April, June, August, October and the third Sunday of December reserved for races held by the PCSO; fourth Sunday of January, May, July, and September and the second Saturday afternoon of January, April, July, and October reserved for races held by the White Cross, Inc.; fourth Sunday of March shall also be reserved for the national race, commonly known as the Grand Derby Race, held by the Philippine Anti-Tuberculosis Society; and other Saturday afternoons reserved for races authorised by the President of the Philippines for charitable, relief or civic purposes.
1951	R.A. No. 620 An act to authorise the Philippine Charity Sweepstake Office to hold annually one special sweepstake race for the benefit of the Girl Scouts of the Philippines	GSP as a civic association becoming a PCSO beneficiary.
1951	Executive Order No. 392 Creating the Games and Amusement Board	Through E.O. No. 392 'the powers, duties and functions previously exercised, and performed by: 1) the city and municipal mayors over fronton and <i>basque pelota</i> games; 2) the Boxing and Wrestling Commission over boxing and wrestling; and 3) the Philippine Racing Commission (PRC) over horse racing, were consolidated and transferred to the Board. It must be noted however that on March 20, 1974, the authority over horse racing was divided between the Board and the PRC' (GAB, n.d.).
1954	R.A. No. 983 An act amending section four of R.A. No. 309	One of the first acts that allowed private racing clubs to hold their own races. Philippine Racing Club, Inc. and the Manila Jockey Club, Inc. were allowed to hold their own races with a portion of the revenues allotted to charitable organisations.
1954	R.A. No. 1159 An act to authorize the Philippine Charity Sweepstakes Office to hold one special sweepstake race for the Bureau of Public Schools athletic program as beneficiary	A government agency became a PCSO beneficiary.
1954	R.A. No. 1169 An act providing for charity sweepstakes horse races and lotteries	PCSO incorporated as a public corporation under the 1907 Corporation Act. Aside from horse-racing, PCSO was mandated to hold lotteries once a month when it was not holding horse races.
		A change in the distribution of prizes was also made. To wit:
		10% for operating expenses.
		58 & 1/2% for prizes and owners and jockeys of winning horses (change from 65%)
		6 & 1/2% for provincial and municipal governments, except Manila (change from 10% of 65% of prize).
		25% for institutions or organizations engaged in charitable, relief, and health work or work for the improvement of the conditions of the indigent Filipino masses in this country or

Year Enacted	Title	Pertinent provisions and changes
		abroad.
1956	R.A. No. 1502 An act to amend R.A. numbered 1169 providing for charity sweepstakes horse races and lotteries	PCSO mandated to hold once a month one regular sweepstakes draw and races and to hold 6 lotteries annually. Net proceeds of the lotteries divided among the following: Quezon Institute (June & December lotteries); National Federation of Women's Clubs for the support of its charitable community improvement program; athletic program of the public schools; leprosaria and orphanages in the Philippines; Philippine Mental Health Association; Philippine Band of Mercy; Manila Children's Hospital; Society for the Prevention of Cruelty to Animals; and National Mental Hospital.
1958	R.A. No. 2053 An act to authorize the Philippine Charity Sweepstakes Office to hold annually a lottery for the benefit of the Blood Bank	On top of the six lotteries yearly, PCSO was authorised to hold an additional lottery yearly to raise funds for the Blood Bank. Hence, the number of lotteries increased to seven yearly.
1958	R.A. No. 2064 An act providing for the holding of a lottery annually for the benefit of the Philippine Mental Health Association, amending for the Purpose R.A. Numbered Eleven Hundred Sixty-Nine, as amended	From the six lotteries held every year, the net proceeds of the August lottery were allotted for the Philippine Mental Health Association. The June and December lotteries remained with the Quezon Institute; while the rest of the proceeds were divided among the other organisations with the addition of the Juan Luna Commission.
1959	R.A. No. 2238 An act to authorize the Philippine Charity Sweepstakes Office to hold a lottery for the benefit of the "Asociacion De Damas De Filipinas"	A special lottery draw for Asociacion de Damas de Filipinas was held for the maintenance of its settlement house.
1959	R.A. No. 2325 An act to amend Sec. Four of R.A. 309 by providing that horse races may be held all day on Saturdays, instead of on Saturday afternoons only as is now provided by said act	With the change, the number of horse races held on Saturdays was increased. The law also transferred the authority to regulate the races from the Commission on Races to the Games and Amusement Board created in 1951.
1964	R.A. No. 3867 An act to authorize the Philippine Charity Sweepstakes Office to hold annually a lottery or sweepstakes for the expansion of the Philippine National Red Cross Blood Bank	With this law, the number of lotteries held annually increased to eight.
1965	Republic Act No. 4564 An act authorising the Philippine Charity Sweepstakes Office to hold annually one special sweepstakes race for the exclusive use of the Office of Vocational Rehabilitation, Social Welfare Administration, in its development and expansion program for the physically disabled throughout the Philippines	Another government agency became a PCSO beneficiary.
1965	R.A. No. 4613 An act to authorize the Philippine Charity Sweepstakes Office to hold annually a lottery for the benefit of the Philippine Rural Reconstruction Movement	The Philippine Rural Reconstruction Movement (PRRM) is one of the biggest NGOs in the country. The number of lotteries yearly increased to nine.
1965	R.A. No. 4621 An act to authorize the Philippine Charity Sweepstakes Office to hold annually one special sweepstakes race for the benefit of the Nutrition Foundation of the Philippines	Another government agency becoming a PCSO beneficiary.

Year Enacted	Title	Pertinent provisions and changes
1965	R.A. No. 4632 An act authorising the Philippine Charity Sweepstakes Office to hold one lottery for the benefit of Quezon Institute	On top of the June and December allotment, one lottery was held for the 'support and maintenance' of the Quezon Institute.
1965	R.A. No. 4589 An act authorising the Philippine Charity Sweepstakes Office to hold a lottery for the benefit of the national league of Puericulture Centres of the Philippines, Incorporated	Another one-off lottery for the benefit of a private charitable organisation, i.e., 'for its support and maintenance.'
1965	R.A. No. 4377 An act authorising the Philippine Charity Sweepstakes Office to hold a special lottery for the benefit of the Girl Scouts of the Philippines	Another special lottery for GSP's "Silver Jubilee Year" on May 26, 1965 to May 26, 1966, and, its participation as hostess to the forthcoming Girl Scouts World Conference in 1966 to be held in Manila'.
1966	R.A. No. 4703 An act amending the title and section one of R.A. numbered four thousand six hundred thirty-two, entitled "An act authorising the Philippine Charity Sweepstakes Office to hold one lottery for the benefit of Quezon Institute"	The number of lotteries allotted for Quezon Institute increased to three yearly; as well the number of lotteries increased to 10.
1972	R.A. No. 6631 An act granting Manila Jockey Club, Inc., a franchise to construct, operate and maintain a race track for horse racing in the City Of Manila or in the province of Bulacan	The law granted Manila Jockey Club a 25-year franchise. The sharing of proceeds among government agencies and charitable organisations had become complicated compared with the earlier laws. See sections 4 and 6. Government agencies and charities that received a portion of the revenues were the Games and Amusement Board, provincial or city hospitals where the race track was located, rehabilitation centres for drug addicts and Philippine Amateur Athletic Federation. On top of this share, a 25% franchise tax to be paid monthly was levied on gross earnings which were apportioned to the national government and local government, PCSO, Philippine Anti-Tuberculosis Society, and White Cross.
1972	R.A. No. 6632 An act granting the Philippine Racing Club, Inc., a franchise to operate and maintain a race track for horse racing in the province of Rizal	-do-
1974	P.D. No. 610 Authorising the Philippine Charity Sweepstakes Office to hold annually a sweepstakes draw exclusively for the benefit of the Philippine Veterans Assistance Commission	The proceeds were to provide assistance to war veterans and their families.
1977	Presidential Decree No. 1067-A Creating the Philippine Amusements and Gaming Corporation, defining its powers and functions, providing funds therefor, and for other purposes	PAGCOR was created to: 1) generate sources of additional revenue for government's infrastructure and socio-civic projects, <i>inter alia</i> , flood control programs, beautification, sewerage and sewage projects, <i>Tulungan ng Bayan Centers</i> /nutritional programs, population control and other public services; 2) increase tourist traffic into the country; and 3) "minimize, if not totally eradicate, the evils, mal-practices and corruptions" inherent in illegal gambling.
1977	P.D. No. 1157 Increasing The Rates Of Tax On Winnings In Jai-Alai And Horse-Racing And The Share Of The Government From The Sweepstakes Total Prize Fund.	The law levied a 10% tax on winnings and justified it as an equitable revenue generation for government, and on 'moral and economic' grounds that calls for increased taxes on legalised gambling.

Year Enacted	Title	Pertinent provisions and changes
1979	B.P. Blg. 42 An act amending the charter of the Philippine Charity Sweepstakes Office	The new charter radically transformed PCSO making it more powerful than ever. The law tasked PCSO to be ‘the principal government agency for raising and providing funds for health programs, medical assistance and services and charities operating nationwide’.
		The law also allowed PCSO to determine the frequency and types of games to hold; and to invest in profit-making ventures to generate more revenues for charitable purposes.
		It also changed the distribution of proceeds from sweepstakes races and lotteries into the following:
		<ul style="list-style-type: none"> • 55% for payment of prizes, including those for the owners, jockeys of running horses, and sellers of winning tickets (from previous 58 & 1/2%).
		<ul style="list-style-type: none"> • 30% shall be set aside as contributions to the charity fund (from previous 25%).
		<ul style="list-style-type: none"> • 15% for operating expenses and capital expenditures (from previous 10% for operating expenses).
		The most significant change in the law was the elision of charitable organisations that used to receive funding from PCSO. Instead the law simply provided that PCSO 'shall make payments or grants to charities of national character', e.g., Philippine Red Cross. It also mandated PCSO to consult with the Ministry of Human Settlement then headed by Imelda Marcos, in identifying charities and programs.
1983	Presidential Decree No. 1869 - Consolidating and amending Presidential Decree Nos. 1067-A, 1067-B, 1067-C, 1399 and 1632, relative to the franchise and powers of the Philippine Amusement and Gaming Corporation	Decree acknowledged the profitability of operating PAGCOR. Hence, it opened PAGCOR to private investors to increase its capital base and to attract big-time players to the country but the state retained the power to centralise all gambling operations.
1995	R.A. No. 7953 An act amending R.A. No. 6632 entitled 'An act granting the Philippine Racing Club, Inc., a franchise to operate and maintain a race track for horse racing in the province of Rizal', and extending the said franchise by twenty-five years from the expiration of the term thereto	Renewal of 25 year franchise of Philippine Racing Club. Allowed horse-racing for at least two days a week aside from the Sundays, Saturdays and holidays allowed by previous laws. Government agencies and charities that benefited from the private horse races: Philippine Racing Commission, Games and Amusement Board, provincial or city/municipal hospitals where the race track is located, rehabilitation centres for drug addicts; National Stud Farm. The 25% franchise tax is to be apportioned monthly to the national government; the local government where race track is located; PCSO, Philippine Anti-Tuberculosis Society, and White Cross.

Year Enacted	Title	Pertinent provisions and changes
1998	R.A. No. 8511 An act granting the Starland Racing Corporation a franchise to construct, operate and maintain a racetrack for horse racing in the province of Batangas	Starland was allowed to hold horse races on at least two (2) days during the week and on all Saturdays, Sundays and official holidays of the year allowed by law. It also allowed races on the eve of any public holiday to start not earlier than five-thirty (5:30) in the afternoon but not to exceed five (5) days a year. Government agencies and charities that benefited from the private horse races: Philippine Racing Commission, provincial or city/municipal hospitals where the race track is located, rehabilitation centres for drug addicts; National Stud Farm. The 25% franchise tax is to be apportioned monthly to the national government; the local government where race track is located; PCSO, Philippine Anti-Tuberculosis Society, and Water for Life project of the Department of Health.
1990	Republic Act No. 6847 An act creating and establishing the Philippine Sports Commission, defining its powers, functions and responsibilities, appropriating funds therefor, and for other purposes	Six PCSO sweepstakes draws are allotted annually as contribution to the Philippine Sports Commission Program; taxes on horse races during special holidays, 5% of the gross income of the Philippine Amusement and Gaming Corporation are likewise allotted.
1994	Republic Act No. 7722 An act creating the Commission on Higher Education, appropriating funds therefor and for other purposes	PCSO is mandated to contribute 1% of the gross sales of its lotto operation to the Commission on Higher Education's Higher Education Development Fund. The National Treasury or PAGCOR was to contribute PhP50mn for the initial operation of the Commission.
1993	Republic Act No. 7660 An act rationalizing further the structure and administration of the documentary stamp tax, amending for the purpose certain provisions of the National Internal Revenue Code, as amended, allocating funds for specific programs, and for other purposes	PCSO to pay documentary stamp tax consisting of 10% of gross sales.
1994	Republic Act No. 7835 An act providing for a comprehensive and integrated shelter and urban development financing program by increasing and regularizing the yearly appropriation of the major components of the National Shelter Program, including the Abot-Kaya Pabahay Fund under Republic Act No. 6846, Augmenting the authorized capital stock and paid-up capital of the National Home Mortgage Finance Corporation (NHMFC) and the Home Insurance and Guaranty Corporation (HIGC), identifying other sources of funding and appropriating funds for the purposes	Ten percent of PCSO's mandatory annual contributions to the charity fund as provided for in Section 6 of R.A. No. 1169 is channelled to socialized and low-cost housing. Forty percent of the mandatory 50% share of the National Government on documentary stamp tax from the annual aggregate gross earnings of the PAGCOR is contributed to the fund.
1995	Republic Act No. 8042 Rules and regulations implementing the Migrant Workers and Overseas Filipinos Act of 1995 Omnibus rules and regulations implementing the Migrant Workers and Overseas Filipinos Act of 1995	An initial amount of PhP10mn was allocated to implement the provisions of the Rule. In addition, PCSO was mandated to contribute PhP150mn from the proceeds of lotto draws to the Congressional Migrant Workers Scholarship Fund.

Year Enacted	Title	Pertinent provisions and changes
1995	Republic Act No. 8175 - An act further amending Presidential Decree No. 1467, as amended, otherwise known as the Charter of the Philippine Crop Insurance Corporation (PCIC), in order to make the crop insurance system more stable and more beneficial to the farmers covered thereby and for the national economy	Ten percent of the net earnings of the PCSO from its lotto operation are earmarked for the Crop Insurance Program until the amount of government subscription is fully paid.
1996	Executive Order No. 357 Approving the allocation of a 5% share for local government units from the Lotto Charity Fund and providing the sharing scheme therefor	PCSO allocates 5% of the lotto share of local government units from the Charity Fund.
1997	Republic Act No. 8313 - An act upgrading the Quirino Memorial Medical Center, appropriating funds therefor, and for other purposes	Allots PhP100mn from the proceeds of lotto for the purchase of equipment.
1997	Republic Act No. 8371 An act to recognize, protect and promote the rights of indigenous cultural communities/indigenous people, creating a National Commission Of Indigenous People, establishing implementing mechanisms, appropriating funds therefor, and for other purposes	PCSO was mandated to contribute PhP50mn pesos to the Ancestral Domains Fund from the proceeds of its lotto operation.
1998	Republic Act No. 8492 An act establishing a national museum system, providing for its permanent home and for other purposes	The law mandated PCSO and PAGCOR each to allot PhP250mn from their annual net earnings.
2002	Republic Act No. 9165 An act instituting the Comprehensive Dangerous Drugs Act Of 2002, Repealing Republic Act No. 6425, otherwise known as the Dangerous Drugs Act Of 1972, as amended, providing funds therefor, and for other purposes	PCSO is mandated to allot 10% of forfeited prizes in the general fund of the Dangerous Drugs Board. PAGCOR is likewise authorised to remit PhP5mn pesos a month to a fund for drug rehabilitation centres.
2003	Executive Order 201 Defining the powers, functions and responsibilities of government agencies in response to the severe acute respiratory syndrome contagion	PCSO set aside PhP1bn for SARS health promotion and awareness campaign.
2003	Executive Order 218 Strengthening the support mechanism for the Philippine Drug Enforcement Agency	PCSO set aside PhP1bn fund for the operations and programs of the Philippine Drug Enforcement Agency.
2004	Executive Order 280 Defining the powers, functions, and responsibilities of government agencies in response to avian influenza (AI) or bird flu virus and related matters thereto	PCSO set aside PhP250mn.

Appendix B: legal framework governing social economy organisations

Law	Relevant provisions
1987 Philippine Constitution	State policy, definition of the concept ‘people’s organisation’. Mandated the Commission on Audit to include in its performance and financial audits NGOs and POs receiving government grants or implementing development programs contracted out by state agencies and corporations.
1991 Local Government Code	Stipulated NGO and PO participation in governance from the village to national levels.
1997 Social Reform or Poverty Alleviation Act	Stipulated government’s integrated approach to poverty alleviation, definition of the concepts ‘poor’, ‘basic sectors’, and organisations providing support to the basic sectors; created and mandated the National Anti-Poverty Commission (NAPC) to coordinate all government programs to assist the basic sectors; created the mandate for microfinance-based development approach through the creation of People’s Credit and Finance Corporation.
2011 Administrative Order No. 21	Redefined the composition of the basic sectors and their representation in the NAPC; added new organisations to the family of organisations supporting the basic sectors; and re-affirmed centrality of microfinance in poverty alleviation programs. The definition of the concept ‘basic sectors’, however, remained the same, i.e., comprising economic classes, organisations, and other social groups.
Commission of Audit Circular No. 2007-001	Revised 1996 guidelines in the granting and auditing of public funds released to NGOs and POs.
1980 Philippine Corporation Code	Defined nonprofit, non-stock corporations as non-income distributing corporations. Nonprofits can be founded for a civic mission, service, trade or industry.
1974 Philippine Labour Code as amended by 1980 Batas Pambansa Blg. 70	Stipulated trade union formation in for-profit and nonprofit corporations. Self-employed workers—e.g., vendors, rural workers— were also allowed to organise their own labour associations for mutual aid and protection.
2008 Republic Act No. 9520 An act amending the Co-operative Code of the Philippines to be known as the ‘Philippine Co-operative Code of 2008’	Mandated the CDA as the sole regulatory agency for co-operatives; increased types of co-operatives from six to 20. The original charter also created the Small Business Corp. to provide credit to MSMEs.
2008 Republic Act No. 9501 Magna Carta for Micro, Small and Medium Enterprises (MSMEs)	Stipulated the participation of social economy organisations, e.g., private voluntary organizations, industry associations, and co-operatives in supporting MSMEs.

Law	Relevant provisions
Republic Act No. 9904 Magna Carta for Homeowners and Homeowners' Associations	Stipulated rights and responsibilities of homeowners and their associations in managing residential real properties. Mandated the Housing and Land Use Regulatory Board (HLURB) as the regulatory agency. Law allows homeowners associations, housing co-operatives to engage in real property development for low-income homeless families.
2003 Executive Order Amending EO#15 series of 1998, entitled 'Redirecting the functions and operations of Department of Social Work and Development	DSWD regulation of private social development organisations, religious charities, NGOs and POs providing social services.
2010 Republic Act 10068 An act providing for the development and promotion of organic agriculture in the Philippines and for other purposes also known as the Organic Agriculture Act of 2010	The law provided for the creation of the National Organic Agricultural Board attached to the Department of Agriculture where representatives of NGOs, people's organisations, agricultural colleges and universities, private sector firms engaged in sustainable agriculture shall sit in the board.
<ol style="list-style-type: none"> 1. 1979 Batas Pambansa Blg. 42 An act amending the charter of the Philippine Charity Sweepstakes Office 2. 1990 Republic Act No. 6847 An act creating and establishing the Philippine Sports Commission, defining its powers, functions and responsibilities, appropriating funds therefor, and for other purposes 3. 2007 Republic Act No. 9487 An act further amending 4. Presidential Decree No. 1869, otherwise known as PAGCOR charter 	Other laws mandating public corporations to support social economy organisations such as microfinance NGOs, charities and amateur sports associations.
<ol style="list-style-type: none"> 1. 1997 Republic Act No. 8367 An act providing for the regulation of the organisation and operation of non-stock savings and loan associations. 2. Central Bank of the Philippines (<i>Bangko Sentral ng Pilipinas</i>) circulars related to microfinance from 2001 to 2011 	Law regulating savings and loans association; Bangko Sentral ng Pilipinas circulars regulating microfinance institutions such as NGO MFIs, commercial banks, co-operative banks and private foundations set up by social investors.

Appendix C: datasets downloaded from internet archives

Type	Data contained/obtained	Source	Website	Date Last Visited
<i>1. Church database</i>				
Directory of Roman Catholic (RC) schools	Name of school, number of schools and distribution by region	Catholic Educational Association of the Philippines	http://www.ceap.org.ph/cms/SchoolMem.aspx	14-Aug-12
Directory of RC colleges and universities	Name of college or university, number and distribution by region	Claretian Communications Foundation, Inc.	http://www.claretianpublications.com/index.php?option=com_content&view=article&id=45:association-of-catholic-universities-of-the-philippines-acup&catid=5&Itemid=141	14-Aug-12
RC church lay and secular organisations, National Capital Region	Name of organisations, organisations' objectives, number of organisation in National Capital Region	The Roman Catholic Archdiocese of Manila	http://www.rcam.org/lay-associations-and-organizations	13-Aug-12
RC charities and retreat houses, National Capital Region	Name of charities, number of charities in National Capital Region	The Roman Catholic Archdiocese of Manila	http://www.rcam.org/charitable-institutions	13-Aug-12
		The Roman Catholic Archdiocese of Manila	http://www.rcam.org/retreat-houses	13-Aug-12
Congregations of religious women of the Roman Catholic Church, National Capital Region	Name of religious congregation, number of congregations of religious women in National Capital Region	The Roman Catholic Archdiocese of Manila	http://www.rcam.org/religious-women	13-Aug-12
Congregations of religious men of the Roman Catholic Church, National Capital Region	Name of religious congregation, number of congregations of religious men in National Capital Region	The Roman Catholic Archdiocese of Manila	http://www.rcam.org/religious-men	13-Aug-12

Type	Data contained/obtained	Source	Website	Date Last Visited
Congregations of religious women of the Roman Catholic Church, nationwide	Name of religious congregation, number of congregations of religious women, nationwide	Claretian Communications, Inc.	http://www.bibleclaret.org/eBook/CD2002/Religiou s%20Women%20of%20the%20Philippines.htm	14-Aug-12
Congregations of religious men of the Roman Catholic Church, nationwide	Name of religious congregation, number of congregations of religious men, nationwide	Claretian Communications Foundation, Inc.	http://www.claretianpublications.com/index.php?option=com_content&view=category&id=6&Itemid=143	14-Aug-12
Episcopal Church in the Philippines' (ECP) community projects	Types of projects in ECP areas of operation from 2009-2011, financial and beneficiary data, number of beneficiaries, number of organisations	Episcopal Church in the Philippines	http://www.cbdp-ecp.org/cbdp053111/index.php/news/88-transforming-communities-from-receivers-to-givers	16-Dec-11
Philippine-Misereor Partnership NGO directory	Name of organisations, number organisations and distribution by region	Philippine-Misereor Partnership Inc.	http://pmpipartnership.com/subpage.php?subpage_id=65&page_id=19&banner_id=33	10-Feb-12
Pondo Ng Pinoy Community Foundation social development projects	Catholic dioceses involved, 2004-2010 financial data, organisations and type of projects funded, corporate donors	Pondo ng Pinoy Community Foundation	http://www.pondongpinoy.org.ph/sites/default/files/pdf/PONDONGPINOY15.pdf	16-Dec-11
			http://www.pondongpinoy.org.ph/member-diocese	14-Aug-12
United Church of Christ in the Philippines programs and ministries	Name of UCCP organisations, distribution by region	United Church of Christ in the Philippines	http://www.uccphils.com/church-recognized-organizations/	24-Aug-12
United Church of Christ in the Philippines programs	Name of UCCP organisations, distribution by region	United Church of Christ in the Philippines	http://uccp.org.ph/programs-and-ministries/index.html#community	16-Dec-11

Type	Data contained/obtained	Source	Website	Date Last Visited
and ministries				
National Secretariat for Social Action-Justice and Peace (NASSA)	Programme activities, number of social action centres	NASSA	http://nassa.org.ph/?page_id=2;	16-Dec-11
			http://nassa.org.ph/?page_id=25	14-Aug-12
Religious charities funded by the Philippine Charities and Sweepstakes Office	Name of charity, annual grant received, distribution by region	Philippine Daily Inquirer	http://newsinfo.inquirer.net/source/philippine-daily-inquirer	25-Sep-12
2. Co-operatives dataset				
2011 directory of business development services providers	Name of organisations, business services provided, number of organisations and distribution by region	Co-operative Development Authority (CDA)	http://www.cda.gov.ph/website/Downloads/training%20provider.pdf	3-Jan-12
CDA 2010 and 2011 directory of co-operatives registered under the new co-operative law of 2008	Financial data, membership, number of co-operatives, type, and distribution by region	Co-operative Development Authority (CDA)	http://www.cda.gov.ph/website/Downloads/cdamasterlist.pdf	3-Jan-12
			http://www.cda.gov.ph/website/Downloads/SelectedStats2010.pdf;	3-Jan-12
			http://www.cda.gov.ph/website/html/downloads.html	3-Jan-12

Type	Data contained/obtained	Source	Website	Date Last Visited
National Confederation of Co-operatives (NATCCO) list of member-co-operatives	Name of co-operatives, number and distribution by region	NATCCO	http://www.natcco.coop/index.php?option=com_content&view=article&id=67&Itemid=79	14-Mar-11
National Dairy Authority list of dairy co-operatives as of 2006	Number of dairy co-operatives and distribution by region	National Dairy Authority	http://www.nda.da.gov.ph/ndacoops.htm	31-Jul-12
3 Government dataset of public sector-NGO-PO partnerships				
Directory of professional associations, sports clubs, business chambers, and other membership clubs	Name of organisations, type, membership, objectives, distribution by region	Department of Tourism	http://www.dotpcvc.gov.ph/MICE/Direct-assn/per_discipline_dir_association.html	13-Mar-12
2010 directory of national trade union centres and their affiliates	Name of trade unions and associations, number of organisations, distribution by region	Department of Labour and Employment	http://www.blr.dole.gov.ph/downloadable%20forms/DIRECTORY-National%20Trade%20Union%20Centers.pdf	24-Aug-12
Directory of registered social welfare and development agencies as of January 2012	Name of organisations, objectives, services provided, type of beneficiaries, number of organisations and distribution by region	Department of Social Welfare and Development (DSWD)	http://www.dswd.gov.ph/downloads-2/nongovernment-organizations/	25-Jan-12

Type	Data contained/obtained	Source	Website	Date Last Visited
List of Senators and Representatives with Philippine Development Assistance Fund (PDAF) advances in behalf of NGOs and people's organisations	Name of organisations, financial data from 2004 to 2011, number of organisations and distribution by region)	Department of Social Welfare and Development (DSWD)	http://www.dswd.gov.ph/index.php/downloads/category/41-list-of-ngo-s-po-s-with-outstanding-cash-advances-funded-by-pdaf ; http://www.dswd.gov.ph/index.php/component/content/article/1-latest-news/2264-individuals-in-crisis-situation-avail-of-dswd-services-	25-Jan-12
Directory of basic sector organisations as of 2009	Name of organisation, sector, number of organisations, and distribution by region	National Anti-Poverty Commission (NAPC)	http://www.napc.gov.ph/BS_Directory.htm	10-Mar-10
2012 directory of organisations of people with disabilities	Name of organisations, number of organisations and distribution by region)	National Council on Disability Affairs (NCDA)	http://www.ncda.gov.ph/organizations-directory/	24-Aug-12
Annual audited report of government agencies, 2006-2010	Subsidies, grants, donations and loans to microfinance institutions, NGOs and POs, distribution by region, types of projects undertaken	Commission on Audit	http://coa.gov.ph/Audit/AAR.htm	Various dates
COA audit of official development assistance to the Autonomous Region of Muslim Mindanao, Jan 2008-Sep 2009	Name of NGOs and PO, subsidies and grants received, projects undertaken	Commission on Audit	http://www.coa.gov.ph/GWSPA/GWSPA.htm	18-Sep-12
Directory of sugar producers' associations	Name of producers' associations, number and distribution by region	Sugar Regulatory Agency	http://www.sra.gov.ph/list%20federation.html	13-Mar-12
Directory of amateur sports associations	Name and number of amateur sports associations	Philippine Sports Commission	http://www.psc.gov.ph/index.php?option=com_content&view=article&id=7&Itemid=5	3-Sep-12

Type	Data contained/obtained	Source	Website	Date Last Visited
4. Microfinance dataset				
Directory of co-operative banks as of 2012	Name of co-operative banks, number and distribution by region	Bangko Sentral ng Pilipinas (BSP)	http://www.bsp.gov.ph/banking/directory.asp?paging=next&Start=20&Offset=20&BankName=&Address=&InstitutionTypeID=13&submit=Find&ctr=21&i=20	30-Jul-12
List of banks with microfinance functions as of 2012	Name of banks, type, number and distribution by region	Bangko Sentral ng Pilipinas (BSP)	http://www.bsp.gov.ph/banking/microfinance.pdf	1-Aug-12
List of savings and loan associations	Name of savings and loans associations, number and distribution by region	Bangko Sentral ng Pilipinas (BSP)	http://www.bsp.gov.ph/banking/directory.asp?paging=next&Start=20&Offset=20&BankName=&Address=&InstitutionTypeID=15&submit=Find&ctr=21&i=20	9-Aug-12
Directory of microfinance (MFI) conduits	Name of MFI conduits--NGOs, co-operative banks and rural banks, number and distribution by region	National Livelihood Development Corp.	http://www.nldc.gov.ph/PartnerMFIs/tabid/60/Default.aspx	20-Apr-11
Directory of microfinance (MFI) conduits	Name of MFI conduits, number and distribution by region, financial data from 2009 to 2010)	People's Credit and Finance Corp.	http://www.pcfc.gov.ph/MFIPartners/tabid/57/Default.aspx	20-Apr-11
COA annual audit of PCFC, 2006-2010	Loan exposures of PCFC to MFI conduits, performance audit	Commission on Audit	http://coa.gov.ph/Audit/AAR.htm	Various dates
Philippine Deposit and Insurance Corporation's list of closed banks	Name of closed MFI conduits	Philippine Deposit and Insurance Corporation	http://www.pdic.gov.ph/index.php?nid1=7&nid2=2	21-Apr-11

Type	Data contained/obtained	Source	Website	Date Last Visited
Philippine microfinance database	Database on Philippine MFIs from 1996 to 2011 contains comprehensive data on the microfinance industry, e.g., number of organisations, type, borrowers, financial data, etc.	Microfinance Information Exchange (MIX)	http://www.mixmarket.org/profiles-reports/crossmarket-analysis-report?fields=balance_sheet.gross_loan_portfolio%2Cproducts_and_clients.total_borrowers&filter_country=Philippines&form_id=crossmarket_analysis_report_top_form&date_select=all&quarterly=ANN	7-Aug-12
2011 directory of microfinance conduits (number of organisations, location by region, financial data)	Name of MFI conduits, number and distribution by region, financial data	Small Business Corporation	http://portal.sbgfc.org.ph/index.php?option=com_weblinks&view=category&id=24&Itemid=152	25-Apr-11
COA annual audit of SBC	Loan exposures of SBC to MFI conduits, performance audit	Commission on Audit	http://coa.gov.ph/Audit/AAR.htm	
Directory of MFI conduits	Name of MFI conduits, number and distribution by region	SEED Finance Corp.	http://www.seedfinance.net/who-we-are/partners/	25-Jul-12
5. NGO dataset				
2009 directory of member NGOs and 2008 case study of marketing initiatives of civil society organisations	Name of member NGOs, strengths and weaknesses of marketing initiatives of civil society organisation	Asia Development of Human Resources in Rural Asia (AsiaDHRRA)	http://asiadhrra.org/activityblogs/2ndlsfmrtw/lsfmmarketmapping2.pdf	3-Feb-10
Philippine Foundation Centre 2003 archive of NGOs, POs and foundations	Profile of NGOs, vision, distribution by region	Philippine Foundation Centre	http://www.pfconline.org/database/ngoquery.html	24-Aug-12

Type	Data contained/obtained	Source	Website	Date Last Visited
Advocates of Philippine Fair Trade Inc. (programs and partners)	Program partners, type of programmes	Advocates of Philippine Fair Trade	< http://www.apfti.org.ph/index.php?option=com_content&view=category&layout=blog&id=23&Itemid=45 >	29-Mar-11
CODE-NGO archive, 2006	Profile of network partners, type of programmes undertaken, number of organisations, distribution by region, 2006 financial data	CODE-NGO	http://code-ngo.org/codedb/	14-Mar-11
Foundation for Philippine Environment (FPE) archive of funded organisations from 2005-2010	Name of organisations, location by region, financial data, vision, activities	Foundation for Philippine Environment	http://fpe.ph/cms/Documents/2010Report.pdf	14-Apr-11
Federation of Peoples' Sustainable Development Co-operative database	Profile of members, number of organisations, location by region, annual reports from 2000 to 2010 containing financial data	Federation of Peoples' Sustainable Development Co-operative	Annual reports from 1998 to 2006, and 2009-2010	
Foundation for Sustainable Society Inc. (FSSI) database	Program partners, type of assistance granted, type of projects, number of organisations and location by region), financial data for 2009 and 2010	Foundation for Sustainable Society Inc.	http://www.fssi.com.ph/index.php?option=com_content&task=view&id=40&Itemid=123	10-Feb-10
Oikocredit partner organisations as of 2011	Loans extended to MFIs, NGOs, type of industry, location by region	Oikocredit	http://www.oikocredit.org/documents/pdf/partnerlist/partners-list-2011.pdf?&hit=no	1-Aug-12

Type	Data contained/obtained	Source	Website	Date Last Visited
Partnership for Development Assistance in the Philippines Inc. directory of partner organisations as of 2012	Name of organisation, number of organisations, industry, location by region, partnership stories	Partnership for Development Assistance in the Philippines Inc.	http://www.pdap.net/index.php?option=com_content&view=article&id=112&Itemid=56	10-Feb-10
			http://www.pdap.net/index.php?option=com_content&view=article&id=112&Itemid=56	23-Aug-12
Peace and Equity Foundation archive of funded organisations from 2001-2009	Name of organisations, financial data, industry, type of project activities, sectoral groups, number of organisations, location by region	Peace and Equity Foundation	http://www.pef.ph/sorttable.php?sortby=0&rev=-1	13-Apr-11
Philippine Partnership for the Development of Human Resources in Rural Areas (PhilDHRRA) directory of network members	Profile of network members, number of organisations, location by region; 2008 annual report (financial data, network members' project activities and involvements)	Philippine Partnership for the Development of Human Resources in Rural Areas	http://phildhrra.net/?q=directory ; http://phildhrra.net/node/101 ; http://phildhrra.net/sites/default/files/2008%20PhilDHRRA%20Annual%20Report.pdf	3-Feb-10
Philippine Social Enterprise Network (PhilSEN) 2011 directory of members	Member organisations, number and distribution by region	Philippine Social Enterprise Network	http://www.philsocialenterprisenetwork.com/links.html	3-Mar-11
Partnership of Philippine Support Service Agencies (PHILSSA) 2012 directory of members	Name of member organisations, number and distribution by region, project activities, sector	Partnership of Philippine Support Service Agencies	http://philssa.org.ph/our-members/ncr/co-multiversity/	23-Aug-12
6. Business philanthropy dataset				

Type	Data contained/obtained	Source	Website	Date Last Visited
Directory of corporate foundations	Member-foundations, date founded	League of Corporate Foundations	http://www.lcf.org.ph/jlf/om	8-Feb-12
Philippine Business for Social Progress 2009 annual report	Organisations funded, location by region, type of activities, sector, partner corporations, source of funds	Philippine Business for Social Progress	www.pbsp.org.ph http://issuu.com/pbsp/docs/pbsp_2009_annual_report	29-Dec-10
Bishops-Businessmen's Conference of the Philippines directory of members	Individual, dioceses, and corporate membership, vision and mission of BBCP); 2012 annual report of Cluster on Labour and Employment (BBCP-CoLE) provided financial data while the 2012 annual report of the BBC Social Justice Committee showed advocacies and activities engaged in by the BBCP.	Bishops-Businessmen's Conference of the Philippines	http://www.bbc.org.ph/v2/home/index.htm	29-Aug-12

Appendix D: List of public sector agencies with NGO/PO partnership

Cluster A - General Public Services I		
<i>Office of the President</i>		
1	Co-operative Development Authority	With NGO/PO partners
2	Co-operative Development Authority - Central Office	With NGO/PO partners
3	Co-operative Development Authority - Manila Extension Office	With NGO/PO partners
4	Dangerous Drugs Board	With NGO/PO partners
5	National Anti-Poverty Commission	With NGO/PO partners
6	National Commission on Indigenous Peoples	With NGO/PO partners
7	National Commission on Indigenous Peoples - Central Office	With NGO/PO partners
8	National Commission on Muslim Filipinos	With NGO/PO partners
9	National Commission on Muslim Filipinos - Main	With NGO/PO partners
10	National Commission on Muslim Filipinos - National Capital Region	With NGO/PO partners
11	National Council on Disability Affairs	With NGO/PO partners
12	National Historical Commission of the Philippines	With NGO/PO partners
13	Office of the Presidential Adviser on the Peace Process	With NGO/PO partners
14	Philippine Commission on Women	With NGO/PO partners
15	Philippine Sports Commission	With NGO/PO partners
<i>Department of Foreign Affairs</i>		
16	Commission on Filipino Overseas	With NGO/PO partners
17	Technical Cooperation Council of the Philippines	With NGO/PO partners
18	UNESCO National Commission of the Philippines	With NGO/PO partners
<i>National Economic and Development Authority</i>		Agency responsible for ODA grants to NGOs and POs
Cluster B - General Public Services II and Defense		
19	Department of Energy	Partnership with electric co-operatives
20	Department of Science and Technology	With NGO/PO partners
Cluster C - Social Services		
21	Commission on Higher Education	With NGO/PO partners
22	Department of Education	With NGO/PO partners
23	Department of Health	With NGO/PO partners
24	Department of Labour and Employment	With NGO/PO partners
25	Department of Social Welfare and Development	With NGO/PO partners
26	Technical Education and Skills Development Authority	With NGO/PO partners
Cluster D - Economic Services		
27	Department of Agrarian Reform (DAR)	With NGO/PO partners
28	Presidential Commission for the Urban Poor	Attached agency to DAR with NGO/PO partners
29	Department of Agriculture (DA)	With NGO/PO partners

30	Agricultural Credit Policy Council	Attached to DA and provides agricultural microfinance to GOCCs that lend in turn to MFIs, and agricultural co-operatives
31	Department of Environment and Natural Resources	With NGO/PO partners
32	Department of Tourism	With NGO/PO partners
33	Department of Trade and Industry	With NGO/PO partners
34	Department of Transportation and Communications	With NGO/PO partners
35	Department of Public Works and Highways	With NGO/PO partners
Government-owned and controlled corporations		
36	Development Bank of the Philippines	Provide wholesale credit to GOCCs that relend to MFIs
37	Land Bank of the Philippines	Provides agricultural credit to ARB co-operatives and associations
38	LandBank Countryside Development Foundation, Incorporated	Public foundation for the agricultural sector
39	National Livelihood Development Corporation	Provides wholesale microfinance credit to MFIs for relending to poor microfinance borrowers
40	People's Credit and Finance Corporation	Provides wholesale microfinance credit to MFIs for relending to poor microfinance borrowers
41	Small Business Corporation	Provides wholesale microfinance credit to MFIs for relending to MSMEs
42	National Dairy Authority	With NGO/PO partners
43	National Food Authority	With NGO/PO partners
44	Food Terminal Inc.	With NGO/PO partners
45	National Housing Authority	With NGO/PO partners
46	National Tobacco Authority	With NGO/PO partners
47	Overseas Workers Welfare Authority	With NGO/PO partners
48	Philippine Amusement and Gaming Corporation	With NGO/PO partners
49	Philippine Coconut Authority	With NGO/PO partners
50	National Agribusiness Corporation	With NGO/PO partners
51	Philippine Charity Sweepstakes Office	With NGO/PO partners
52	Quedan and Rural Credit Guarantee Corporation	Semi-public-private corporation lending to agricultural co-operatives

Source of data: Commission on Audit website

Appendix E: Due from NGOs and POs (in PhP), from 2006 to 2010

	Government Agency	2006	2007	2008	2009	2010
1	Co-operative Development Authority	311,054,529.97	343,890,607.49	338,168,603.18	309,574,224.40	314,758,166.93
2	Dangerous Drugs Board	7,916,918.51	7,870,394.44	674,341.34	2,546,490.00	2,546,490.00
3	National Anti-Poverty Commission	21,135,512.15	21,380,598.35	21,380,598.35	20,653,763.35	20,653,763.35
4	National Commission on Indigenous Peoples	4,028,000.00	20,275,000.00	9,952,015.37	6,849,713.48	4,714,542.15
5	National Commission on Muslim Affairs	9,217,800.00	4,657,800.00	9,807,800.00	4,667,800.00	14,517,800.00
6	National Council on Disability Affairs	-	480,550.46	480,550.46	480,550.46	480,550.46
7	National Historical Commission of the Philippines	-	9,904,000.00	10,447,000.00	11,225,000.00	10,765,000.00
8	Office of the Presidential Adviser on the Peace Process	9,338,379.78	2,556,718.58	1,116,218.58	6,754,718.58	50,213,664.54
9	Philippine Commission on Women	73,571.00	-	450,660.00	450,660.00	450,660.00
10	Philippine Sports Commission	135,134,507.50	135,134,507.50	135,134,507.50	135,134,507.50	122,960,746.59
11	Commission on Higher Education	699,462,956.90	789,537,052.29	950,581,817.53	912,177,692.61	725,682,127.79
12	Department of Agrarian Reform	71,817,000.00	59,111,000.00	70,704,000.00	49,455,999.00	20,116,126.23
13	Department of Agriculture	1,132,415,000.00	1,611,483,000.00	1,412,020,683.40	1,362,065,000.00	1,447,613,999.58
14	Department of Education	79,751,000.00	37,298,000.00	41,646,000.00	36,925,072.63	37,112,646.63
15	Department of Energy	373,444,000.00	566,332,000.00	633,178,000.00	753,445,000.00	815,000,000.00
16	Department of Environment and Natural Resources	6,499,000.00	5,091,000.00	17,414,000.00	9,498,000.00	16,749,141.21
17	Department of Health	1,156,512,000.00	1,177,204,000.00	1,167,219,000.00	997,791,000.00	1,358,433,527.53
18	Department of Labour and Employment	110,767,594.93	116,504,876.59	247,244,503.92	269,958,800.14	266,486,672.46
19	Department of Public Works and Highways	110,179,161.00	57,515,939.00	183,418,495.00	479,436,734.00	356,545,120.00
20	Department of Science and Technology	79,930,000.00	74,916,000.00	111,131,000.00	124,777,000.00	168,193,000.00
21	Department of Social Welfare and Development	602,765,000.00	742,494,000.00	1,019,284,000.00	878,767,408.57	1,000,910,396.06
22	Department of Tourism	25,050,268.59	14,049,000.00	5,690,000.00	9,732,000.00	19,707,000.00
23	Department of Trade and Industry	24,807,356.27	95,965,630.36	102,006,627.90	105,864,707.00	98,091,676.00
24	Department of Transportation and Communications	-	-	4,332,000.00	4,472,323.59	751,612.83
25	National Youth Commission (DSWD)	100,000.00	100,000.00	-	-	-
26	Technical Cooperation Council of the Philippine (DFA attached agency)	-	-	2,674,000.00	3,248,185.66	3,480,325.00
27	Technical Education and Skills Development Authority	55,843,690.99	55,769,887.79	64,927,557.79	42,445,297.79	31,218,116.63
28	UNESCO National Commission of the Philippines (DFA attached agency)	4,229,320.63	4,591,706.75	4,570,526.25	3,546,003.38	3,525,789.60
Grand Total		5,031,472,568.22	5,954,113,269.60	6,565,654,506.57	6,541,943,652.14	6,911,678,661.57

Source of raw data: Commission on Audit

Appendix F: Public sector subsidy to NGOs and POs (in PhP), from 2006 to 2010

Government Agency	2006	2007	2008	2009	2010
1. Cooperative Development Authority	1,510,000.00	-	4,300,000.00	500,000.00	10,420,000.00
2. Dangerous Drugs Board	9,901,723.22	26,304,821.66	51,102,503.53	17,632,976.77	6,385,763.67
3. Commission on Higher Education	-	-	120,950.00	2,945,165.00	3,855,750.00
4. Department of Agrarian Reform	-	779,000.00	3,449,000.00	-	20,000,000.00
5. Department of Agriculture	2,435,000.00	348,500.00	11,425,616.67	-	-
6. Department of Education	4,652,000.00	3,331,000.00	1,051,000.00	1,065,000.00	5,333,500.00
7. Department of Health	11,621,000.00	23,892,000.00	19,835,000.00	37,453,000.00	58,436,117.79
8. Department of Labour and Employment	9,838,394.41	7,277,040.20	19,206,472.30	47,988,268.06	32,958,066.26
9. Department of Public Works and Highways	123,975.00	-	-	-	-
10. Department of Science and Technology	-	-	-	-	-
11. Department of Social Welfare and Development	12,078,000.00	35,761,000.00	21,385,000.00	44,511,380.00	245,843,750.00
12. Department of Tourism	130,000.00	1,501,000.00	140,000.00	1,452,000.00	20,000.00
13. Department of Trade and Industry	6,805,766.06	639,482.60	10,410,426.00	1,585,646.00	-
14. Department of Transportation and Communications	-	-	-	80,628.00	-
15. Technical Education and Skills Development Authority	-	600,000.00	11,775.00	-	133,868,017.58
Grand Total	59,095,858.69	100,433,844.46	142,437,743.50	155,214,063.83	517,120,965.30

Source of raw data: Commission on Audit

Appendix G: Public sector grants and donations (in PhP), from 2009 to 2010

	Government Agency	2009	2010
1	Dangerous Drugs Board	110,900.00	152,000.00
2	National Anti-Poverty Commission	59,186.00	-
3	National Commission on Indigenous Peoples	113,680,487.31	118,650,023.30
4	National Commission on Muslim Affairs	18,819,613.08	7,047,862.92
5	National Council on Disability Affairs	108,134.95	309,770.00
6	Office of the Presidential Adviser on the Peace Process	63,344,200.00	20,013,000.00
7	Philippine Sports Commission	2,074,364.00	870,000.00
8	Commission on Higher Education	800,882,234.83	913,854,004.67
9	Department of Agrarian Reform	319,000.00	186,000.00
10	Department of Agriculture	3,319,885,000.00	2,715,353,328.05
11	Department of Education	3,414,820,217.25	4,373,799,626.00
12	Department of Energy	1,636,025,000.00	54,760,000.00
13	Department of Environment and Natural Resources	1,058,000.00	32,838,000.00
14	Department of Health	185,214,000.00	357,107,683.58
15	Department of Labour and Employment	247,703,340.71	85,147,410.66
16	Department of Public Works and Highways	337,767.00	158,583.00
17	Department of Science and Technology	54,037,000.00	80,241,000.00
18	Department of Social Welfare and Development	5,561,945,286.41	8,251,423,766.46
19	Department of Tourism	77,669,000.00	31,009,000.00
20	Department of Trade and Industry	28,500.00	131,695,696.00
21	Department of Transportation and Communications	750,000.00	70,571,830.00
22	National Youth Commission (DSWD)	214,576.53	860,449.17
23	Technical Education and Skills Development Authority	1,907,183.80	2,033,143.68
Grand Total		15,500,992,991.87	17,248,082,177.49

Source of raw data: Commission on Audit

Appendix H Pro forma information statement

Project Supervisors: Prof. Mel Gray & Prof. Stephen Webb
Research Institute for Social Inclusion & Well-being
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Fax: +61 2 4921 7942
Email: Mel.Gray@newcastle.edu.au, Stephen.Webb@newcastle.edu.au



**Information Statement for the Research Project:
Social Entrepreneurship in the Philippines: A Case Study**
Document Version 1: dated 6 September 2010

Dear Sir/Madam:

We are writing to formally invite you, as (CBE partner/employee) of SAFRUDI, to participate as a location/research participant for our student's, Alice B. Acejas, case study for her degree of Ph.D. in Sociology and Anthropology.

Why is the research being done?

The purpose of the research is to explore the contributions of the Philippine social enterprise sector to the social and economic empowerment of the poor. Social enterprises are civil society organisations—nongovernment organisations (NGOs), nonprofit associations and other associated groups—that pursue businesses in support of their social mission. In particular, the study will develop a profile of NGOs engaged in social enterprise. SAFRUDI and 10 of its partner community-based enterprises (CBEs) will serve as the location of the case study which will examine the nature and processes of social enterprise, the social actors involved, and their contribution to social and economic development. The study also aims to contribute to the growing body of empirical research on social enterprise and provide policy makers with an evidence base for formulating - and implementing - a supportive legal and regulatory framework of social enterprise development.

Who can participate in the research?

We are seeking owners/members of the board of trustees, management and employees of your enterprise/association to participate in the case study. To ensure that there is full representation of members from your enterprise/association, the following general criteria will guide the selection process: tenure or number of years in the enterprise/association; position (function and responsibility); gender balance; and availability and willingness to participate. As a CBE partner, you have been selected from amongst a list of partners who have a continuing partnership for five years with SAFRUDI.

What choice do you have?

If you agree to participate in the case study, only those people who give their informed consent will be included in the project. There will be no disadvantage of any kind to you whether or not you decide to participate. Participation in this research is entirely voluntary.

What would you be asked to do?

The research process will utilise field work and participant observation. Hence, we would like to video record and photograph your day-to-day activities. We would also like you to take part in a recorded interview about your role as a social enterprise and partner of SAFRUDI, the challenges you face and how you transcend these, the factors that enable you to succeed, among others. We would also like to observe and participate in your enterprise/association's organisational processes and work flow and community involvement.

How much time will it take?

The field work will span eight months and will take the student researcher from SAFRUDI headquarters in Manila to the communities where partner CBEs reside.

What are the risks and benefits of participating?

There are no identified risks or benefits to your enterprise/association from participating in this research. Participants will be quoted verbatim but will not be identified or named to ensure that no harm will be done or that relationships will not be negatively affected. Although they will not be named, it will be unavoidable that photos and video recordings of settings, processes or activities where participants are engaged may potentially identify them. However, photos and videos will serve generally as audio-visual aids in capturing data and information that will be difficult to capture through the traditional method of note-taking and tape recording; hence, their use in the research report will be selective.

How will participants' privacy be protected?

Participants will be given information statements and consent forms to participate in in-depth interviews, focus groups, and to take photos and record videos and use these resources as part of the research report. If requested, participants will be given transcripts of interviews and electronic copies of photos and videos. An external transcription service will be contracted by the researchers but a confidentiality clause will be provided to protect the identity of participants and ensure confidentiality of information. Participants will not be named or identified in the thesis; instead the student researcher will assign a pseudonym for each participant who is quoted directly. SAFRUDI will be named as the case study but the results will not identify your enterprise/association and the participants in any way. The data will be stored for five years by the owner of the research, which is the University of Newcastle, Australia, in accordance with the Australian Code for the Responsible Conduct of Research. It will be kept at the organisational unit of the research supervisors at the University of Newcastle, Australia. The transcripts of interviews, printed photos, tapes and CDs/DVDs will be stored in a locked drawer while electronic copies of these will be stored on a password protected computer and backed up on a password protected external hard drive.

How will the information collected be used?

The results of the research will be reported as a Research Higher Degree Thesis and will be submitted as a requirement for the degree of Ph.D. in Sociology and Anthropology, School of Humanities and Social Science, The University of Newcastle, Australia. Its results may also be presented in an appropriate conference and published in relevant journals. A copy of the thesis will be sent to SAFRUDI and a summary of the report will be sent to all participants. Your enterprise/association can request an electronic copy of the thesis by emailing the student researcher.

What do you need to do to participate?

Please read this Information Statement carefully before you decide to participate. If there is anything you do not understand, or if you have questions, please contact the researcher. If you agree to participate:

- Please complete the attached Consent Form, scan and email it to the researcher via c3099669@uon.edu.au or alice.acejas@gmail.com.

Further information

If you would like further information please contact Professors Mel Gray and Stephen Webb in the Research Institute for Social Inclusion and Well-being, School of Humanities and Social Science at the University of Newcastle, Mel.Gray@newcastle.edu.au; Stephen.Webb@newcastle.edu.au, Tel: +61 2 4921 7322; + 61 2 4921 6630.

***Thank you for considering this invitation.
Your participation would be greatly valued.***

Professor Mel Gray
Principal Supervisor

Professor Stephen Webb
Co-Supervisor

Alice B. Acejas
Student Researcher

Complaints about this research

This project has been approved by the University's Human Research Ethics Committee, Approval No. HREC-2010-1205. Should you have concerns about your rights as a participant in this research, or you have a complaint about the manner in which the research is conducted, it may be given to the researcher, or, if an independent person is preferred, to the Human Research Ethics Officer, Research Office, The Chancellery, The University of Newcastle. University Drive, Callaghan NSW 2308, Australia, telephone [+61 2] 4921 6333, email Human-Ethics@newcastle.edu.au.

OR

Local Contact in Manila: Dr. Gina Arenas-Yap, VP for Social Development, Asian Social Institute, Manila. Tel. (632) 526-6154.

Appendix I Pro forma consent form

Project Supervisors: Prof. Mel Gray & Prof. Stephen Webb
Research Institute for Social Inclusion & Well-being
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Email: Mel.Gray@newcastle.edu.au; Stephen.Webb@newcastle.edu.au
Student: Alice B. Acejas, PhD in Sociology & Anthropology
School of Humanities and Social Science
Faculty of Education and Arts
Email: c3099669@uon.edu.au or alice.acejas@gmail.com



Consent Form for the Research Project: Social Entrepreneurship in the Philippines: A Case Study Document Version 1: dated 6 September 2010

We/I (_____) agree to participate in the above research project and give our/my consent freely.

We/I understand that the project will be conducted as described in the Information Statement, a copy of which we/I have retained.

We/I understand we can withdraw from the project at any time and do not have to give any reason for withdrawing.

We/I consent to participate in the research to be undertaken, allowing the researcher to do the following:

- ☐ Observe and participate in our/my the day-to-day activities
- ☐ Interview (name of CBE/individual research participant) and record the interviews
- ☐ Take photographs relevant to the research project
- ☐ Record video footages relevant to the research project
- ☐ Quote documents and reports provided by (name of CBE)
- ☐ Use photographs in the PhD report, publications and conference presentations subject to our/my review and editing in which we/I appear
- ☐ Use audio/video recordings in the PhD report, publications and conference presentations subject to our/my review and editing in which we/I appear

We/I understand that personal information will remain confidential to the researcher and her supervisors.

We/I have had the opportunity to have questions answered to our satisfaction.

Name: _____

Organisation: _____

Contact details: _____

Signature: _____ **Date:** _____

Appendix J: Pro forma guide questionnaire

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Guide Questionnaire **Social Entrepreneurship in the Philippines: A Case Study** Document Version 2: dated 6 September 2010

The following research questions will serve as guide in the formulation of specific interview questions during the fieldwork:

1. What is the organisational structure of SAFRUDI? Why does SAFRUDI identify as a social enterprise? What are its vision, mission and goals? Who are its partners and stakeholders? How many people benefit?
2. What does it mean for SAFRUDI and partners to be a 'social enterprise'? How is the understanding of 'social enterprise', the vision, mission, goals of SAFRUDI, and the principles of fair trade translated, mediated and negotiated in the various layers of the organisation, ranging from the board of trustees to the larger, immediate community? What is its impact on their day-to-day lives?
3. How do SAFRUDI and partners resolve the contradictions between the demands or workings of the market and their social objectives?
4. What are the strengths and weaknesses, opportunities and threats of the social enterprise in strengthening community life and in resolving larger social justice issues, such as rural poverty, landlessness, lack of access to basic social services, trade liberalisation, and weak political structures and governance?
5. What are the legal and regulatory frameworks that govern and support social enterprise development?

Appendix K: Interview schedule – sample questions

Introductions

Provide participants a brief personal background of the researcher to establish rapport before giving participants a brief overview of the study. Reiterate information about confidentiality, and withdrawal from the study. Ask for oral consent to start audio-visual recording of interview and work processes.

1. Organisational

SAFRUDI research participants

How long have you been working in SAFRUDI?

What does SAFRUDI do?

Can you tell me something about your personal and family situation?

CBE partners

How long have you been a partner of SAFRUDI?

What kind of benefits do you get as a SAFRUDI partner?

What kind of problems do you encounter as a SAFRUDI supplier?

NGOs and civil society networks

Would you like to give me a brief overview of the current program of the organisation?

How does social enterprise fit into your program?

Who are your trading partners?

2. Perceptions, understanding and experiences of organisation as a social enterprise

SAFRUDI research participants

What does fair trade mean for you?

How would you differentiate SAFRUDI from other organisations you've worked for?

What kind of benefits do you enjoy?

CBE partners

What does fair trade mean for your enterprise?

Why is SAFRUDI different from other exporter-buyers?

How often do you get purchase orders?

NGOs and civil society networks

Do you consider your organisation a social enterprise? Why/Why not?

Why did you venture into social enterprise?

Can you tell me about your experiences as a social enterprise or your network partners' experiences?

3. Dealing with contradictions between the demands or workings of the market and organisation's social objectives

SAFRUDI research participants

What does SAFRUDI do to help you when there is no production?

What do you think of sub-contracting?

How does it affect you?

CBE partners

Do you know SAFRUDI's buyers? Have you met them?

How do you discuss your pricing with SAFRUDI?

What are your dreams and aspirations for the enterprise?

NGO and civil society networks

What do you do to increase your market share?

What kind of support do you provide your CBE partners?

How would you assess your social enterprise work vis-à-vis your social mission?

4. Strengths and weaknesses in contributing to economic democracy and sustainable social development

SAFRUDI research participants

What did you think of SAFRUDI when you first worked here and what do you think of it now?

Have you been to GBP communities? Why/why not?

What do you like and not like about working in SAFRUDI?

CBE partners

What do you do when there is no purchase order?

How does SAFRUDI assist you to grow your enterprise?

Why and when did your production stop?

NGO and civil society networks

What are the strengths and weaknesses of social enterprise in helping community producers?

What is the status of your CBE partners?

How would you assess their entrepreneurial capabilities?

What opportunities do you see for social enterprises?

5. Legal and regulatory frameworks that govern and support social enterprise development and protect workers

CBE partners and NGOs and civil society networks

Do you get any support from government? Why/why not?

If yes, what kind of support do you get?

What kind of support would you like to get?

Do you have any further comments or questions about the research?

Concluding information

Inform research participants about possible follow up interview to clarify certain responses. Thank you.

Appendix L: Nodes/coding structure report produced from NVivo software

Hierarchical Name
Nodes\\Corporate social responsibility
Nodes\\Economic
Nodes\\Economic - fair business partner (Nodes)
Nodes\\Economic\\Continuous activity
Nodes\\Economic\\Continuous activity\\Business cycle for IMO function
Nodes\\Economic\\Continuous activity\\Business cycle for production
Nodes\\Economic\\Continuous activity\\Death of an enterprise
Nodes\\Economic\\Continuous activity\\Intermediary marketing organisation
Nodes\\Economic\\Continuous activity\\Networking & market linkages
Nodes\\Economic\\Continuous activity\\NGO contracting
Nodes\\Economic\\Continuous activity\\NGO products and services
Nodes\\Economic\\Continuous activity\\NGO products and services\\Business development services
Nodes\\Economic\\Continuous activity\\NGO products and services\\Financing
Nodes\\Economic\\Continuous activity\\Organic food producer sensitivity to consumer market demand; not IMO buyer demand-led
Nodes\\Economic\\Continuous activity\\Production is contingent on actual FTO buyer demand, it is passive not pro-active
Nodes\\Economic\\Continuous activity\\Production is contingent on actual FTO buyer demand, it is passive not pro-active\\Past bestseller
Nodes\\Economic\\Continuous activity\\Quality control
Nodes\\Economic\\Continuous activity\\Scaling up
Nodes\\Economic\\Continuous activity\\Sub-contracting & Informal economy
Nodes\\Economic\\Minimum amount of paid work
Nodes\\Economic\\Minimum amount of paid work\\Capability and skills of management and staff to implement a social enterprise program
Nodes\\Economic\\Minimum amount of paid work\\CBE partners' capability and skills to become social enterprise
Nodes\\Economic\\Level of economic risk
Nodes\\Economic\\Level of economic risk\\Becoming independent producers
Nodes\\Economic\\Level of economic risk\\Branding
Nodes\\Economic\\Level of economic risk\\Branding\\Certification
Nodes\\Economic\\Level of economic risk\\Branding\\Packaging and labeling
Nodes\\Economic\\Level of economic risk\\Buyer power
Nodes\\Economic\\Level of economic risk\\Forms of leveraging risks to protect financial resources and organisational integrity
Nodes\\Economic\\Level of economic risk\\Forms of leveraging risks to protect financial resources and organisational integrity\\Loans not being re-paid by NGOs and POs
Nodes\\Economic\\Level of economic risk\\Innovation
Nodes\\Economic\\Level of economic risk\\Innovation\\Ownership of designs
Nodes\\Economic\\Level of economic risk\\Innovation\\Product development
Nodes\\Economic\\Level of economic risk\\Innovation\\Product development\\Developing new financial services for microfinance borrowers not reached by traditional MFIs
Nodes\\Economic\\Level of economic risk\\Innovation\\Product development\\Product sample by buyer
Nodes\\Economic\\Level of economic risk\\Innovation\\Product development\\Product sample by producer
Nodes\\Economic\\Level of economic risk\\Innovation\\Product development\\Technology R&D
Nodes\\Economic\\Level of economic risk\\Innovation\\Product development\\Uniqueness and marketability
Nodes\\Economic\\Level of economic risk\\Innovation\\Product development\\We always tell our CBE partners to

Hierarchical Name
come up with new products, to innovate
Nodes\\Economic\\Level of economic risk\\Lack of capital
Nodes\\Economic\\Level of economic risk\\Law of demand and supply
Nodes\\Economic\\Level of economic risk\\Market
Nodes\\Economic\\Level of economic risk\\Market\\Consumer preference
Nodes\\Economic\\Level of economic risk\\Market\\Export
Nodes\\Economic\\Level of economic risk\\Market\\Local
Nodes\\Economic\\Level of economic risk\\Market\\Mainstream business practices
Nodes\\Economic\\Level of economic risk\\Market\\NGO business practices
Nodes\\Economic\\Level of economic risk\\Market\\Ownership of design IPR
Nodes\\Economic\\Level of economic risk\\Market\\Pricing
Nodes\\Economic\\Level of economic risk\\Market\\Promotion and marketing strategy
Nodes\\Economic\\Level of economic risk\\Market\\Relations with buyers
Nodes\\Economic\\Level of economic risk\\Market\\Sensitivity to market trends
Nodes\\Economic\\Level of economic risk\\Microfinance
Nodes\\Economic\\Level of economic risk\\Opportunistic behaviour
Nodes\\Economic\\Level of economic risk\\Organic agriculture development
Nodes\\Economic\\Level of economic risk\\Organic agriculture development\\Agri-enterprise
Nodes\\Economic\\Level of economic risk\\Organic agriculture development\\Muscovado
Nodes\\Economic\\Level of economic risk\\Organic agriculture development\\Organic rice production
Nodes\\Economic\\Level of economic risk\\Subsidy
Nodes\\Economic\\Level of economic risk\\Sustainability
Nodes\\Economic\\Level of economic risk\\Transforming private business practices, e.g., buyer power
Nodes\\Economic\\Level of economic risk\\Transforming private business practices, e.g., buyer power\\Business practices that affect the financial viability of IMOs
Nodes\\Economic\\Level of economic risk\\Value chain
Nodes\\Economic\\Payment of a fair price and fair wages
Nodes\\Economic\\Payment of a fair price and fair wages\\NGO staffing and personnel
Nodes\\Economic\\Payment of a fair price and fair wages\\Pegging fair wages to mandated minimum daily wage per region'
Nodes\\Economic\\Payment of a fair price and fair wages\\Workers
Nodes\\Economic\\Payment of a fair price and fair wages\\Workers\\Piece-rate workers
Nodes\\Economic\\Payment of a fair price and fair wages\\Workers\\Regular workers
Nodes\\Economic\\Payment of a fair price and fair wages\\Workers\\Relatives as workers
Nodes\\Economic\\Payment of a fair price and fair wages\\Workers\\Women
Nodes\\Economic\\Payment of a fair price and fair wages\\Workers\\Work relationship
Nodes\\Fair trade
Nodes\\Fair trade\\Fair trade standards
Nodes\\Fair trade\\Fair trade standards\\Child labour
Nodes\\Fair trade\\Fair trade standards\\Gender equality
Nodes\\Government
Nodes\\Government\\Infrastructure support
Nodes\\Government\\Regulatory framework
Nodes\\Government\\Relations with government
Nodes\\History
Nodes\\Limits of SE
Nodes\\Limits of SE\\Challenges
Nodes\\Limits of SE\\Challenges\\SWOT
Nodes\\Limits of SE\\Community of practice
Nodes\\Limits of SE\\OFWs

Hierarchical Name
Nodes\\Mgt Info System
Nodes\\Mgt Info System\Documenting best practices
Nodes\\Mgt Info System\M&E Social audit
Nodes\\Mgt Info System\Use of information & communication technology
Nodes\\Niche nature of the handicraft market
Nodes\\Participatory governance
Nodes\\Participatory governance\Decision-making power
Nodes\\Participatory governance\Decision-making power\Equity investments
Nodes\\Participatory governance\Decision-making power\Profit-sharing
Nodes\\Participatory governance\Degree of autonomy
Nodes\\Participatory governance\Degree of autonomy\Enabling and disabling factors for GBP maturity and graduation
Nodes\\Participatory governance\Degree of autonomy\Enabling and disabling factors for GBP maturity and graduation\GBP graduation
Nodes\\Participatory governance\Degree of autonomy\Role of external funding agencies in the decision to go into social enterprise
Nodes\\Participatory governance\Participatory nature
Nodes\\Participatory governance\Participatory nature\Nuances of participatory governance by type of enterprise and by development stage
Nodes\\Participatory governance\Participatory nature\Nuances of participatory governance by type of enterprise and by development stage\An enterprise undergoes different development stages so the challenges may be different for each
Nodes\\Participatory governance\Participatory nature\Nuances of participatory governance by type of enterprise and by development stage\Integrators and consolidators as 'middle traders'
Nodes\\Participatory governance\Participatory nature\Nuances of participatory governance by type of enterprise and by development stage\Our co-op partners have developed their own local market that sometimes they could not supply us anymore with organic rice
Nodes\\Participatory governance\Participatory nature\Nuances of participatory governance by type of enterprise and by development stage\You have to know the market trend to compete, the consultative nature of decision-making with PO partners inhibits the ability of our aquaculture marketing officer to decide on the spot
Nodes\\Participatory governance\Accountability and transparency
Nodes\\Participatory governance\Accountability and transparency\Transparency as a means of control to lower price
Nodes\\Participatory governance\Accountability and transparency\Transparency as a means of control to lower price\Transparency in costing and pricing
Nodes\\Participatory governance\Accountability and transparency\Transparency as joint mechanism for competitively-priced attractive products
Nodes\\Participatory governance\Funding
Nodes\\Participatory governance\Leadership and management
Nodes\\Participatory governance\Terms of partnership
Nodes\\Participatory governance\Type of partner organisations (POs, CBEs)
Nodes\\Participatory governance\Type of partner organisations (POs, CBEs)\Co-operatives
Nodes\\Participatory governance\Type of partner organisations (POs, CBEs)\Farmer producers
Nodes\\Participatory governance\Who is the social enterprise
Nodes\\Recommendations
Nodes\\Researcher impact
Nodes\\Social
Nodes\\Social\Limited profit distribution
Nodes\\Social\Limited profit distribution\Social premium
Nodes\\Social\Explicit aim to benefit the community
Nodes\\Social\Explicit aim to benefit the community\Intended goals and beneficiaries and unintended

Hierarchical Name
consequences
Nodes\\Social\\Explicit aim to benefit the community\\Intended goals and beneficiaries and unintended consequences\\Some community groups were against our plans of putting up a supply store for our PO partners
Nodes\\Social\\Explicit aim to benefit the community\\Intended goals and beneficiaries and unintended consequences\\We found out that the social enterprise was not appropriate for our intended beneficiary
Nodes\\Social\\Explicit aim to benefit the community
Nodes\\Social\\Explicit aim to benefit the community\\Advocacy
Nodes\\Social\\Explicit aim to benefit the community\\Balancing social and economic objectives
Nodes\\Social\\Explicit aim to benefit the community\\Beneficiaries
Nodes\\Social\\Explicit aim to benefit the community\\Creating economic democracy
Nodes\\Social\\Explicit aim to benefit the community\\Employment
Nodes\\Social\\Explicit aim to benefit the community\\Social justice
Nodes\\Social\\Explicit aim to benefit the community\\Sub-contracting and effect on piece-rate workers
Nodes\\Social\\Explicit aim to benefit the community\\Types of community and benefits enjoyed
Nodes\\Social\\Launched by a group of citizens
Nodes\\Social\\Launched by a group of citizens\\Board composition by type of organisation
Nodes\\Social\\Capacity building of producers
Nodes\\Social\\Capacity building of producers\\Enabling and disabling factors for becoming independent producers
Nodes\\Social\\Capacity building of producers\\Enabling and disabling factors for becoming independent producers\\Traditional artisanal production system practiced by family enterprise owners
Nodes\\Social\\Capacity building of producers\\Enabling and disabling factors for becoming independent producers\\We don't want additional headache
Nodes\\Social\\Capacity building of producers\\Enabling and disabling factors for becoming independent producers\\We're already happy being a supplier to SAFRUDI
Nodes\\Social\\Capacity building of producers\\Intergenerational succession
Nodes\\Social\\Capacity building of producers\\Intergenerational succession\\We're already old'
Nodes\\Social\\Payment of a fair price and fair wages
Nodes\\Social\\Personal growth
Nodes\\Social\\Promoting fair trade
Nodes\\Social\\Promoting fair trade\\Fair trade is about fair price
Nodes\\Social\\Promoting fair trade\\Fair trade is about having work
Nodes\\Social\\Gender equity
Nodes\\Social\\Gender equity\\Perspective of women home-based worker-producers
Nodes\\Social\\Gender equity\\Perspective of women home-based worker-producers\\Work in the organisation allowed me to send my children to school
Nodes\\Social\\Working conditions
Nodes\\Social\\Working conditions\\Piece-rate work and alienation
Nodes\\Social\\Working conditions\\Piece-rate work and alienation\\High volume of radio music played
Nodes\\Social\\Social investment
Nodes\\Social\\Triple bottom line
Nodes\\Social\\Vision and mission
Nodes\\Social\\Vision and mission\\Organisational mandate
Nodes\\Social economy
Nodes\\Social economy\\Social enterprise
Nodes\\Social economy\\Social enterprise\\Social enterprise definition (Nodes)
Nodes\\Social economy\\Social enterprise\\Social enterprise stages (Nodes)
Nodes\\Social economy\\Social enterprise\\Types of enterprise
Nodes\\Social economy\\Social entrepreneurship
Nodes\\Social economy\\Social entrepreneurship\\Mindset
Nodes\\Social economy\\Social entrepreneurship\\Mindset\\Culture

Hierarchical Name

Nodes\\Social economy\\Social entrepreneurship\\Mindset\\Entrepreneurial mindset
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Nodes\\Social economy\\Social entrepreneurship\\Social entrepreneur