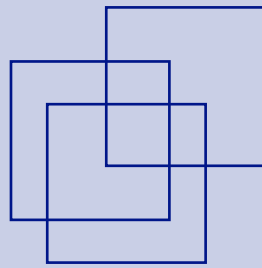




International Labour Organization



International Training Centre

# Public policies for the social and solidarity economy: Towards a favourable environment

## The case of the Republic of Korea





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## **The case of the Republic of Korea\***

\* The paper was written by Hyuck-Jin Choi, Jeong-Yeop Kim, and Jae-min Jung and was proofread by Hyunjoo Cho. All of them worked or are working at the Korea Social Enterprise Promotion Agency, a public institution responsible for cooperative and social enterprise.

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The case of the Republic of Korea

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# Prologue

The International Labour Organization (ILO) has a long tradition and extensive experience on the social and solidarity economy (SSE). In fact, the first official document making direct reference to social economy enterprises dates back to 1922. The ILO's commitment to the advancement of the SSE is grounded on its Constitution and on the ILO Declaration on Social Justice for a Fair Globalization (adopted by the International Labour Conference (ILC) in 2008), which states that, in a globalized world, “productive, profitable and sustainable enterprises, together with a strong social economy and a viable public sector, are critical to sustainable economic development and employment opportunities”.

The SSE is a concept that is increasingly being used to refer to all economic activities involving organizations like associations, cooperatives, foundations, mutual benefit societies and social enterprises that are guided by principles, values and practices concerned with participation, democracy, solidarity and commitment to the environment, and that prioritize the pursuit of a social aim.

The social economy sector has not only proved to be resilient to economic crises in terms of employment, but also represents a concrete response from civil society to its own needs through, for example, the provision of basic services that traditional welfare state systems are no longer in a position to provide and that the traditional private sector has no interest in providing.

The SSE continues to grow in many countries and there is increasing recognition of its role in sustainable and inclusive development. In fact, more and more governments see the SSE as an area of work that is relevant for tackling challenges related to employment, service provision and the level of social cohesion, among others.

This paper studies the case of the Republic of Korea, where public policies – understood in the broad sense as legal frameworks related to credit, taxation, training, education, health, infrastructure and public tendering – have been formulated specifically to support the SSE. This paper aims to describe and explain the overall context and the evolution, from an historical and institutional standpoint, of the process that has fostered a more favourable policy framework.

The most important aspects covered are:

- the context for and the development of the SSE in recent years;
- the identification of key government measures (laws, public policies, programmes, institutional reforms, and so on) taken to support the SSE;
- an analysis of the key challenges facing the SSE. In the Republic of Korea, economic polarization has significantly intensified the demand for welfare and employment support since 2010, leading the social economy to emerge as a possible solution.

We would like to thank the authors, Hyuck-Jin Choi, Jeong-Yeop Kim and Jae-Min Jung, for this research, and we hope that the contents of this paper will be of use to those readers who would like to better understand how the SSE is steadily contributing to building a new model of production and consumption.

## **Vic van Vuuren**

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# List of acronyms

<b>ACA</b>	Agricultural Cooperatives Act
<b>FAC</b>	Framework Act on Cooperatives
<b>FASE</b>	Framework Act on the Social Economy
<b>FCA</b>	Fishery Cooperatives Act
<b>KFCC</b>	Korean Federation of Community Credit Cooperatives
<b>KIHASA</b>	Korea Institute for Health and Social Affairs
<b>KoSEA</b>	Korea Social Enterprise Promotion Agency
<b>MAFRA</b>	Ministry of Agriculture, Food and Rural Affairs
<b>MGAHA</b>	Ministry of Government Administration and Home Affairs
<b>MOEL</b>	Ministry of Employment and Labour
<b>MOPAS</b>	Ministry of Public Administration and Security
<b>MSF</b>	Ministry of Strategy and Finance
<b>MW</b>	Ministry of Health and Welfare
<b>NBLSA</b>	National Basic Living Security Act
<b>NBLSP</b>	National Basic Living Security Programme
<b>SBC</b>	Small and Medium Business Corporation
<b>SEPA</b>	Social Enterprise Promotion Act
<b>SMB</b>	Smile Microcredit Bank



# Abstract

From its beginnings in the private sector, rooted in civic engagement as traditional private reciprocal aid for the public institutionalization of the cooperative, the Republic of Korea's social economy has developed in the public sector through ministries and their policies to define and foster several social economy organizations. Recently, the Framework Act on the Social Economy has aimed to create the integrated ecosystem of social economy proposed and discussed by both the ruling political party and the opposition. In the 2000s, as legislation relevant to this sphere began to be developed, the size of social economy increased, and various public/private support mechanisms have been offered to organizations such as social enterprises, rehabilitation enterprises, cooperatives and community enterprises. The Republic of Korea's social economy has now emerged as a key component in society, expanding its base by creating social/financial values. It is expected that social economy will continue to grow by strengthening solidarity and cooperation among relevant organizations, and expanding human and material support from both public and private sectors on the basis of a coherent policy system.

# 1. EVOLUTION OF THE SOCIAL ECONOMY IN THE REPUBLIC OF KOREA: THE CASE OF COOPERATIVES

The concept of the “social economy”<sup>1</sup>, as explained in chapter 2, has become a topic of increasing debate in Korean society only very recently. During its rapid modernization, however, the Republic of Korea has seen the emergence and multiplication of cooperatives over the last few decades, with increasing policy support to that end. The institutionalization of cooperatives may not exactly reflect the establishment of a full-blown social economy in the Republic of Korea, but the experience of such policy support nonetheless forms a core asset to the burgeoning social economy in the Republic of Korea today.

The traditional, agrarian Korean economy was indeed familiar with voluntary systems of mutual aid such as *dure*<sup>2</sup> and *gye*<sup>3</sup>, which lay at the centre of community life in rural regions. While it would be a stretch to claim that the origins of the Republic of Korea’s present-day social economy lie in these pre-modern forms of mutual aid, these historical traditions undoubtedly played a role in helping imported concepts such as cooperatives to take root and flourish in modern Korean society.

Even during the Japanese occupation (1910–1945), the Young Men’s Christian Association (YMCA) and

other religious and voluntary associations in the Republic of Korea created cooperatives for farmers and consumers, seeking to provide economic help for Koreans severely deprived under colonial rule. However, the majority of these cooperatives disappeared under tightened Japanese control in the aftermath of the second Sino-Japanese War of 1935.

It was, therefore, during the post-colonial period of rapid industrialization that cooperatives as models of the social economy began to appear and grow in the Republic of Korea, thanks to stable policy and legal support. While undertaking industrialization, the Korean government authorized the necessary legal and institutional grounds for the establishment of cooperatives in certain industries such as agriculture and fisheries, to that end.

## 1.1 Government support

After lengthy debate, the Korean government passed the Agricultural Cooperatives Act (ACA) in 1957. Agricultural cooperatives that were established under this law were to confine their activities to the economy only through transactions

<sup>1</sup> As explained in Chapter 2, social economy means all economic activities of civil society that produce and distribute goods and services on the basis of cooperation, solidarity and mutual aid among the members of that society, thereby providing more and better social services, creating jobs, promoting local development and otherwise serving the public interest.

<sup>2</sup> Communities that developed around traditions of mutual aid and communal labour. (from <http://krdic.naver.com/detail.nhn?docid=10534000>)

<sup>3</sup> Traditional groups established to ensure mutual aid for and socialization of their members. (from <http://krdic.naver.com/detail.nhn?docid=2364500>)

with the Agricultural Bank, and not advance into finance. As finance became critical to the growth of agricultural cooperatives, the government merged these cooperatives with the Agricultural Bank in 1961, thus introducing a new model of agricultural cooperatives and finance.

The Forestry Act was enacted in the same year, providing legal grounds for the creation of forestry cooperatives. The Fishery Cooperatives Act (FCA) followed suit in 1962. In these early days, agricultural, fishery and forestry cooperatives were semi-public agencies as opposed to truly voluntary associations supporting mutual aid, self-sufficiency and autonomy of their members. Active support from the government nonetheless helped these cooperatives to multiply and achieve management stability in a short timespan. The government, for

example, put agricultural cooperatives in charge of providing resources for the expansion of food production and the release of national grain reserves, as well as tax benefits and financial aid in case of need.<sup>4</sup> As a result, agricultural cooperatives – including the National Agricultural Cooperative Federation (NACF) – saw their aggregate assets multiply in value from KRW32.6 billion (equivalent to US\$30 million) in 1961 to KRW23.4 trillion (equivalent to US\$2.1 billion) by 2000.<sup>5</sup> Such astonishing growth would have been impossible without government support.

The democratization of the Republic of Korea after 1987 led to reform through various pieces of legislation on cooperatives, emphasizing the autonomy and self-organizing principles of those cooperatives.<sup>6</sup>

### *Institutionalization of cooperatives in the Republic of Korea*

Year	Legal/policy support
1957	Agricultural Cooperatives Act and Agricultural Bank Act enacted.
1961	Forestry Act enacted; National Federation of Agricultural Cooperatives and Agricultural Bank merged.
1962	Fishery Cooperatives Act enacted.
1972	Credit Union Act enacted.
1980	Forestry Cooperatives Act and Livestock Industry Cooperatives Act enacted.
1982	Korea Federation of Community Credit Cooperatives (KFCC) Act enacted.
1999	Consumer Cooperatives Act enacted.

<sup>4</sup> Sung-jae Park: “Changes and Tasks of Agricultural Cooperative after National Independence”, Non-ghyup (Agricultural Cooperative), October 2015, (from [www.nonghyup.com/Research/Monthly\\_View.aspx?PAGE=2&Idx=1230](http://www.nonghyup.com/Research/Monthly_View.aspx?PAGE=2&Idx=1230))

<sup>5</sup> US\$1 = approximately KRW1,100.

<sup>6</sup> For example, on “Cooperation with the State and Public Organizations”, article 9 of the ACA and the FAC provide that: “The state and public organizations shall not infringe upon the autonomy of cooperatives and their central federations”

## 1.2 Cooperatives in civil society

Even without government intervention, voluntary cooperatives began to form in the Republic of Korea to steer the nation out of its abject poverty and enhance Koreans' economic self-sufficiency. Sister Mary Gabriella (an American-born Catholic nun) founded the Catholic Credit Union, the first of its kind of the Republic of Korea, in Busan in 1960 and actively campaigned for credit unions, providing education and training for Korean credit union leaders. Her campaign led to the enactment of the Credit Union Act (CUA) in 1972 and the establishment of the Korea Federation of Credit Unions (KFCU) with 277 member unions in 1973.

Voluntary credit unions in civil society renewed and deepened the government's understanding

of financial cooperatives, in turn prompting the government to introduce the Korean Federation of Community Credit Cooperatives (KFCC) as a new model for community financing. First introduced as "Maeul Geumgo" in 1963, KFCC later changed its name to "Saemaetul Geumgo".<sup>7</sup> The KFCC Act was enacted in 1982, giving the organization an independent legal standing.

Consumer cooperatives also began to multiply and flourish, almost on their own initiative, in Korean civil society. The first Korean consumer cooperative emerged simultaneously in Anyang and Wonju in 1985. These cooperatives struggled greatly in their early days, having little policy and legal support from the government. The Consumer Cooperatives Act (CCA) enacted in 1999 has boosted the status of these organizations and turned consumer cooperatives into one of the most influential types of cooperative in the Republic of Korea today. A state of them is as follows.

### *Cooperatives in the Republic of Korea today (as of the end of 2014)*

Category of cooperative	Number	Number of members	Economic operations (Unit: KRW100 million)*	Capital (Unit: KRW100 million)
			Credit Operations (Unit: KRW100 million)	
Agricultural cooperatives (nonghyup)	1 155	2 350 000	485 398	83 238
			2 378 866	
Fishery cooperatives (suhyup)	93	158 000	68 619	-
			166 484	
Forestry cooperatives	142	491 000	-	-
			-	
Credit unions	920	5 722 000	536 392	37 237
KFCC	1 372	18 144 000	1 060 555	48 968
Korea Federation of SMEs	939	71 000	-	2 811
Consumer Cooperatives	177	1 035 000	11 652	915
<b>Total</b>	<b>4 798</b>	<b>27 971 000</b>	<b>-</b>	<b>-</b>

\* Source: Gi-tae Kim et al: "Annual Report on Cooperatives in the Republic of Korea, 2014", Korea Cooperative Research Institute, in *Cooperatives Network Quarterly*, (2015, Vol. 69 , August) (from [www.dbpia.co.kr/Journal/ArticleList/VOIS00256500](http://www.dbpia.co.kr/Journal/ArticleList/VOIS00256500))

<sup>7</sup> "Maeul" and "Sae" respectively mean "the community" and "new" in Korean.

<sup>8</sup> As in footnote 7, US\$ 1 equivalent to KRW1,100.

### 1.3 Other initiatives

The first child care cooperative in the Republic of Korea was established in the Mapo district of Seoul in 1994 and has since spawned similar associations nationwide. The Korean legislature amended the Infant Care Act in 2005 to give official recognition and policy support to these cooperatives as legitimate child care facilities. Until then, however, child care cooperatives struggled with limited resources and recognition, regarded as disorganized voluntary associations.

Numerous workers' cooperatives also sprung up throughout the Republic of Korea to support the self-sufficiency of people excluded from the mainstream job market. These cooperatives, however, have also struggled greatly due to the absence of legal grounds and policy support and began to benefit from policy support and legal recognition only after the Framework Act on Cooperatives (FAC)<sup>9</sup> became law.

<sup>9</sup> The Act was established in 2012 in order to promote autonomous and independent cooperative activities and ultimately to contribute to the integration and balanced development of society. The Act prescribes the basic principles on how cooperatives are established and managed and allows five or more incorporators from any industry to establish a cooperative.

## 2. THE CONCEPT OF THE SOCIAL ECONOMY IN THE REPUBLIC OF KOREA AND LEGAL AND POLICY DEBATES

In this chapter, the several definitions of social economy are explained, as the definition of social economy differs depending on the field, area of work or nature of the enterprise. Specifically, the different notions of social economy in the public sector, compared to the private sector will be explored.

### 2.1 The concept of the social economy as used in academic and NGO circles

We can broadly understand social economy as encompassing all the economic activities of civil society that produce and distribute goods and services on the basis of cooperation, solidarity and mutual aid among the members of civil society, thereby providing more and better social services, creating jobs, promoting local development and otherwise serving the public interest.

However, the concept of social economy has varied geographically and at different points in time. Moreover, in the Republic of Korea, the concept has largely remained obscure. What is worse, although the social economy was an issue of interest to the general public, it was discussed only among NGO workers in the field<sup>10</sup> until several years into the new millennium when the Framework Act on

Cooperatives (FAC) had been enacted, thus raising significant attention to the issue in society.

Saesayon (2013) surveyed and analysed various definitions of the social economy and concluded that “a social economy is an economic realm in which both economic and social objectives are pursued on the basis of democratic decision-making structures, contributions to communities and voluntary participation.”

Nevertheless, until very recently, a range of government agencies had adopted different definitions of social economy, depending on who their target audiences were – social enterprises, community enterprises, rehabilitation enterprises, and so on – to provide different forms of policy support.

Local government organizations, on the other hand, understand the social economy as an economic realm that encompasses social enterprises, cooperatives, community enterprises, mutual aid associations and other non-governmental organizations that seek to benefit members and communities by upholding four major principles: autonomy of management, democratic decision-making, equitable distribution of profits, and the importance of labour. A consensus on a single definition of social economy in Korea has yet to emerge.

<sup>10</sup> One of widely accepted notions of social economy in the 2000s can be found in Jang (2006): “A voluntary, reciprocal and participatory economy that seeks to achieve an alternative distribution of resources apart from the capital- and power-centered market and state, by leading members of the civil society or a given local community to launch and engage in practices to satisfy their diverse needs.”

***Different policy understandings of social economy organizations***

<b>Type of organization</b>	<b>Legal grounds (government agency)</b>	<b>Definition<sup>11</sup></b>
Social enterprises	Social Enterprise Promotion Act (SEPA) (Ministry of Employment and Labour, MOEL)	Corporate organizations that engage in for-profit activities such as production, distribution and services, in pursuit of certain social purposes, such as providing services and jobs for the socially vulnerable and improving the quality of life for local people.
Community enterprises	Special Act on Urban Renewal Promotion and Support (Ministry of Government Administration and Home Affairs, MGAHA)	Neighbourhood-based enterprises that revitalize local communities and contribute to local development by providing income and jobs for local people through for-profit activities which locals lead and engage in, using locally available resources.
Rural community enterprises	Special Act on the Improvement of Quality of Life for Rural Communities (Ministry of Agriculture, Food and Rural Affairs, MAFRA)	Organizations that solve local problems and contribute to local communities by allowing members of rural communities to make use of available human and material resources to increase income and provide jobs and social services.
Rehabilitation enterprises	National Basic Living Security Act (NBLSA) (Ministry of Health and Welfare, MW)	Organizations that assist welfare recipients and the poor to escape poverty through for-profit activities that involve mutual aid and support.
Cooperatives	Framework Act on Cooperatives (FAC)  (Ministry of Strategy and Finance, MSF)	Organizations that promote members' rights and interests and contribute to local communities through collective purchases, production, and/or distribution of goods and services.

## **2.2 The concept of the social economy in the Framework Act on the Social Economy (FASE)**

Extreme socio-economic polarization in the Republic of Korea has significantly raised the demand for welfare and employment support since 2010, leading the social economy to emerge as a possible alternative. The growing society-wide debate on the social economy led the governing Saenuri Party and

the main opposition party, the New Politics Alliance for Democracy, to submit two different drafts of the Framework Act on the Social Economy (FASE), in April and October 2014 respectively. The objectives and definitions of the social economy in each draft are compared in the following paragraphs.

### ***2.2.1 Objectives***

The governing party's draft states that the objective of the Framework Act on the Social Economy (FASE)

<sup>11</sup> Extracted from each related law.

is “to establish the comprehensive ecosystem and integrated policy implementation system necessary for the sustainable development of the social economy, thereby providing support for the creation and management of social economy organizations and creating jobs with a view to overcoming polarization, enhancing the health of local communities and ensuring a balanced growth of the national economy.” The opposition party’s draft, on the other hand, aims “to establish a sustainable ecosystem for the social economy by recognizing its contribution to the balanced growth of the national economy and development of the national community, and providing common legal grounds based on the basic principles of the social economy, thereby promoting cooperation and solidarity among social economy organizations and creating an effective policy implementation system involving public-private partnerships with central and local government organizations.” Different wordings aside, both drafts envision the creation of a comprehensive policy implementation system and a sustainable and healthy ecosystem for the social economy.

### **2.2.2 Definitions of a social economy**

The governing party’s draft defines social economy as encompassing all economic activities that generate and serve social values and the public interest through the provision of social services, improving people’s welfare, creating jobs and promoting local development. The opposition party, on the other hand, defines it as encompassing all economic activities of organizations following the principles of mutual benefit and social solidarity and serving social purposes such as overcoming polarization, creating jobs and social services, revitalizing local communities and economies, improving quality of life and promoting social inclusion.

Both parties’ drafts recognize the economic activities of the private sector that serve diverse social values as belonging to the social economy. Note, however, that the governing party’s draft places a greater emphasis on the innovativeness and autonomy of the actors. After incorporating the various opinions of stakeholders such as the government, academia and private field of practices, the status of both draft bills are pending in the Strategy and Finance Committee.

## **2.3 The concept of the social economy in local government by laws and ordinances**

Separately from legislative efforts at the national government level, a significant number of local governments in the Republic of Korea have already enacted and implemented bylaws and ordinances regarding the social economy. The concepts of social economy implied or stated in the bylaws of Seoul, Daegu, Gyeonggi Province and elsewhere all acknowledge and emphasize the role of the social economy in improving quality of life and welfare for members of local communities, creating decent jobs, counteracting polarization, restoring social security and revitalizing communities.

The understanding of the social economy contained in the drafts from the two national parties and the bylaws of major local governments in the Republic of Korea vary slightly depending on where their central emphases lie. Nevertheless, these drafts indicate a broad consensus in policy circles regarding the overarching meaning, functions and importance of the social economy.



# 3. THE SOCIAL ECONOMY IN THE REPUBLIC OF KOREA

The social economy has gained importance in the Korean governmental agenda, along with other economic and welfare policies after the Asian Financial Crisis of the late 1990s. This chapter examines the government-led development process and the social economy's current status.

## 3.1 The social economy under policy support

It was in the aftermath of the Asian Financial Crisis of the late 1990s that Korean policymakers began to make social economy organizations their main focus while they had previously only been a means for growth in specific industries.<sup>12</sup> This expansion began with the Ministry of Health and Welfare (MW)'s Rehabilitation Support Programme to assist the unemployed. By then, policymakers had begun to acknowledge that the traditional market-or-welfare approach no longer sufficed to resolve the massive unemployment and poverty born out of rapid globalization, and that it was crucial to find an alternative way in partnership with civil society.

The National Basic Living Security Act (NBLSA) introduced in 2000 sought to secure a minimum living standard for all Koreans, particularly by providing economic rehabilitation programmes for the poor still capable of working. The

government thus appointed approximately 240 local rehabilitation centres nationwide to provide customized and systemic support for the creation and management of "rehabilitation enterprises" catering to the growing class of the working poor.<sup>13</sup>

The Ministry of Employment and Labour (MOEL) also introduced the Social Employment Programme in 2003 as an alternative to the Programme of Public Works Assigned to Private Agencies that was introduced in the aftermath of the Asian Financial Crisis.<sup>14</sup> The Social Employment Programme represented a change of strategy toward increasing social services by creating jobs for the poor and marginalized. The Social Enterprise Promotion Act (SEPA), enacted in 2007, established legal grounds to support growing policy measures for the social economy under a clearer policy vision and system for implementation.

Ministries and agencies of the central government began to launch diverse programmes to support the incipient social economy in the Republic of Korea. The Ministry of Public Administration and Security (MOPAS) programme for community enterprises, the Ministry of Agriculture, Food, and Rural Affairs (MAFRA) programme for rural community enterprises and the Ministry of

<sup>12</sup> As described in Chapter 1, the Government adopted cooperatives in order to develop specific primary industries such as agriculture, fishing industry and forestry.

<sup>13</sup> A rehabilitation enterprise is a private-sector corporation in which recipients of National Basic Living Security Programme (NBLSP) benefit from and the poor participate in as either producers or partners to earn an income through the government's Work Rehabilitation Programme. It has its legal grounds in the NBLSA.

<sup>14</sup> The policy programme sought, under the ideal of "productive welfare," to enhance social welfare and create jobs simultaneously for the unemployed by providing jobs, in partnership with private businesses that would secure a minimum standard of living.

Strategy and Finance (MSF) campaign for the enactment of the Framework Act on Cooperatives (FAC), all represent a shift in policy focus from job creation and economic rehabilitation for the poor to revitalization of local communities and economies.<sup>15 16</sup>

The FAC, which took effect in 2012, a year that was declared by the United Nations as the International Year of Cooperatives, differs from other legislation and policies supporting the social economy as it recognizes the corporate status of cooperatives. Under the FAC, various social economy organizations not previously taken into account in established policies could now begin to conceive and pursue more diverse and creative business operations that best suited their own vision.<sup>17</sup> The FAC thus came to serve as the “mother” of all social economy legislation and policies in recognition of the growing demand in the field and the increasing public consensus in favour of the social economy.

<sup>15</sup> The Social Enterprise Promotion Act (SEPA) sets requirements such as the “realization of social purposes” for certification as a social enterprise. Social purposes include providing people in vulnerable social groups with a guaranteed job and/or service, and solving social problems such as poverty, marginalization, and crime, as well as increasing community income. The Act also includes support for organizations involved in these activities as a social purpose.

<sup>16</sup> This political circumstance, a focus shift from job creation to communities’ revitalization, had an influence on local governments as well as the central government. As an example, an ordinance of Gyeonggi province has been enacted in March, 2013, named the “Ordinance for Support for Making Warm-Hearted and Happy Community”. The Province promotes recovery of communities/communes and the fostering of social economy in order to create the ecosystem for an economy of reciprocity. This demonstrates that this province still remains focused on recovery and development of commonality in terms of social economy.

<sup>17</sup> As seen in footnote 6, five or more incorporators from any industry except finance and insurance are able to establish a cooperative. This means that an organization is able to work as a social economy organization even if it is not certified as rehabilitation enterprise, social enterprise or community enterprise.

### 3.2 Impact of the social economy in the Republic of Korea

The Korean government began using the social economy in policy programmes to fulfill various social purposes, namely reduce unemployment, provide social services and revitalize local communities. It is only very recently that a debate began to surface on the need to find an overarching and consistent policy approach to the social economy. In the absence of a broad consensus on the scope of the social economy and its activities, official statistics err by including conventional cooperatives and non-profit organizations alike in the category of social economy organizations.

As of September 2015, there were approximately 15,000 social economy organizations in the Republic of Korea including social enterprises in the making. While it is difficult to ascertain the exact number of workers that these organizations employ, it is believed that the entire sector provides jobs for around 50,000 people altogether. Considering the findings of a government survey in 2013, as well as the job-creating effect of cooperatives in general, the 8,000 or so cooperatives in the Republic of Korea appear to be a significant source of jobs.<sup>18</sup>

<sup>18</sup> Cooperative survey findings revealed that, of 747 cooperatives, 416 or 55.7 per cent hired employees, with the average number of employees per cooperative reaching 5.1. This figure rose to 16.2 with respect to social cooperatives, which are the largest job creators of all social economy organizations. (The result of cooperative fact-finding survey, MoSF press release, November 15, 2013)(from [mosf.go.kr/nw/nes/detail-NesDtaView.do?menuNo=4010100&searchNttId1=OLD\\_4018932&searchBbsId1=MOSFBBS\\_00000000028](http://mosf.go.kr/nw/nes/detail-NesDtaView.do?menuNo=4010100&searchNttId1=OLD_4018932&searchBbsId1=MOSFBBS_00000000028))

**Main policy programmes for the social economy in the Republic of Korea**

	<b>Social enterprises</b>	<b>Community enterprises</b>	<b>Rural community enterprises</b>	<b>Rehabilitation enterprises</b>	<b>Cooperatives</b>
<b>Ministry</b>	<b>MOEL</b>	<b>MGHA</b>	<b>MAFRA</b>	<b>MW</b>	<b>MSF</b>
<b>Legal grounds</b>	SEPA	Special Act on Urban Renewal Promotion and Support	Special Act on the Improvement of Quality of Life for Rural Communities	NBLSA	FAC
<b>Effective as of</b>	2007	2010	2011	2000	2012
<b>Target beneficiaries</b>	The poor	Local communities	Rural communities	The poor (including those on the NBLSP)	Cooperatives and related organizations
<b>Objectives</b>	Job creation and social services	Revitalize local communities	Create jobs and increase incomes for rural communities	Assist the poor to escape poverty	Supplement market economy through recognition of corporate status for cooperatives
<b>Financial assistance</b>	Labour costs (including social insurances), management consulting, tax and financial benefits	Facility grants, management consulting, etc. for 2 years (KRW80 million per business)	Product development grants, management consulting, etc. (KRW50 million per business)	Labour costs (for NBLSP recipients up to 2 years) and initial capital support	Consulting, training and PR support
<b>Number of organizations</b>	1 423 (as of September 2015)	1 249 (as of December 2014)	867 (as of December 2013)	1 344 (as of December 2014)	7 977* (as of September 2015)
<b>Intermediary agencies</b>	KoSEA (public agency) and 16 regional centres	Community Enterprise Support Centres (non-profit foundations)	Korea Rural Community Corporation (KRC) (public corporation)	1 central agency, 10 regional agencies, 247 Local Rehabilitation Centres	KoSEA (public agency) and 16 regional centres
<b>Funding<sup>19</sup> (2014)</b>	KRW155.9 bn. (national treasury)	KRW38.8 bn. (national treasury)	KRW4.05 bn. (national treasury) KRW2.02 bn. (local governments)	KRW549.5 bn.	KRW3.3 bn.

\* This total can be broken down into 7,596 general cooperatives, 336 social cooperatives and 45 federations of cooperatives.

\* Some numeric values were updated based on a source material; Sung-gi Kim et al, "Understanding the Social Economy and Its Prospects", 2014.

<sup>19</sup> US\$1 equivalent to KRW1,100

If we expand the scope of the social economy to include not only cooperatives and social enterprises, but also the whole range of non-profit organizations in the private sector, the impact of the social economy on the future of the Republic of Korea is indeed remarkable. As of 2010, the private non-profit sector in the Republic of Korea accounted for KRW44 trillion in total value added or 3.8 per cent of entire Gross Domestic Product (GDP). The sector also employs 935,000 people or 4.6 per cent of all workers in the Republic of Korea. It should also be noted that social economy organizations began to grow dramatically in the first decade of the 2000s, when the government began to provide policy support.<sup>20</sup>

Unfortunately, since accurate statistical study has not been performed at the government level, it is not surprising that it has been difficult to find evidence of the effect of related policies. Additional studies are therefore needed. Moreover, it is susceptible of improvement along with the enactment of the FASE.

### ***Non-profit sector share of total value added and number of employees nationwide***

	1995	1998	2000	2003	2010
Value-added (%)	0.98	0.86	1.13	1.25	3.8
Employees (%)	1.7	1.7	2.2	2.3	4.6

\* Source: Seung-hun Jeon, "Analysis of the Economic Impact of the Non-profit Sector Using an Input-Output Model", KIHASA, 2013.

## **3.3 Main support programmes today**

The policy support system for the social economy in the Republic of Korea involves multiple ministries and departments of the central government organizing and providing their own programmes. Interdisciplinary and comprehensive forms of support have yet to be developed. Since the

<sup>20</sup> Seung-hun Jeon, "Analysis of the Economic Impact of the Non-profit Sector Using an Input-Output Model", KIHASA, 2013.

enactment of the SEPA in 2007, local government organizations have also enacted bylaws and ordinances to support social economy organizations through management consulting and public procurement. As some of these local governments have begun to design systems of interdisciplinary and comprehensive support for the social economy, these governments play an increasingly important role in the Korean social economy, producing a number of remarkable achievements and outcomes.

In the early days of the social economy, labour cost subsidies were the most favoured means of encouraging social economy organizations to create jobs for the poor and vulnerable. With growing criticism of the shortfalls of direct fiscal support, today's support comes in the form of indirect assistance from an increasing number of programmes, such as management consulting, training and PR, financing and marketing.<sup>21</sup> In particular, there is a growing emphasis on public procurement preference programmes for social economy organizations. An increasing number of private-sector businesses also provide different forms of support to strengthen the ecosystem for the social economy as part of their corporate social responsibility campaigns.

In this section, the current system and programmes of support that the public and private sectors provide for the social economy in the Republic of Korea will be showcased.

### ***3.3.1 Support System for social enterprises***

In order for an organization to label itself as a "social enterprise" under the SEPA, it must satisfy the legal conditions and undergo the required certification process. While it is the Minister of Employment and Labour who grants such certification, local government organizations and other agencies of the central government can also designate "social

<sup>21</sup> Issues included the potentially autonomy-compromising effect of direct fiscal support by engendering dependency on the government, the lack of a system for effective cooperation among social economy organizations due to the compartmentalized Support system, and wasted national funds due to overlapping programmes of support.

enterprises in the making” to foster specific social economy activities and programmes.

Both social enterprises in the making and fully certified ones enjoy similar policy benefits but to different extents. These benefits include labour cost subsidies for new employees, brand and technology development support, PR and marketing support, and management consulting and training support to enhance capabilities. An increasing number of government organizations have recently begun to provide public procurement programmes that give preference to social enterprises, in addition to helping them find and develop channels of distribution both online and offline.

The Second Basic Plan for Promoting Social Enterprises (2013–2017) established by the MOEL late in 2012 sets out 15 policy goals that need to be met in order to enhance social enterprise autonomy, develop a system of customized support, maximize the performance and roles of social enterprises and strengthen their partnership with local communities and the private sector. The First Basic Plan (2008–2012) did help increase the number of jobs and social services through social enterprises but was criticized for its failure to strengthen the autonomy of those social

enterprises by making use of diverse private-sector and local resources. The Second Basic Plan is, in a way, a response to this criticism.

In the past, the MOEL supported social enterprises by using the existing private sector infrastructure and resources, as much as possible. In 2010, however, the Ministry set up the Korea Social Enterprise Promotion Agency (KoSEA) as the control tower for a more systematic policy support. The MOEL also appoints private sector actors to run its regional integrated support centres for local social economies.

Since its establishment, KoSEA has served as an effective arbitrator between the government and the private sector, coordinating opinions and roles regarding policy support programmes and services. KoSEA provides its own social entrepreneur support programme and organizes Social Venture Contests to identify and support aspiring social entrepreneurs. KoSEA also provides management consulting, product and marketing support, training and other resources to help enhance the autonomy of social enterprises. In addition, it has created an evaluation and monitoring system to garner public support and trust in social enterprises, and continues

### ***Policy goals of the Second Basic Plan for Promoting Social Enterprises (2013–2017)***

<b>Objective</b>	<b>Policy goals</b>
Enhance social enterprise autonomy	<ol style="list-style-type: none"> <li>1. Support the development of channels of distribution</li> <li>2. Increase investment and financial support</li> <li>3. Increase public procurement</li> <li>4. Improve subsidy system</li> </ol>
Develop a system of customized support	<ol style="list-style-type: none"> <li>1. Increase and enhance management consulting</li> <li>2. Strengthen capabilities and infrastructure</li> <li>3. Enhance social entrepreneur support programmes</li> <li>4. Provide follow-up support</li> </ol>
Maximize performance and roles of social enterprises	<ol style="list-style-type: none"> <li>1. Increase the roles of social enterprises</li> <li>2. Identify and advertise successful models</li> <li>3. Enhance accountability</li> <li>4. Strengthen public support</li> </ol>
Strengthen partnerships with the private sector and local communities	<ol style="list-style-type: none"> <li>1. Encourage private businesses to support social enterprises</li> <li>2. Reinforce links to private sector human resources</li> <li>3. Encourage exchange among regions and industries</li> </ol>

to champion for social enterprises. The KoSEA also began to run policy support programmes on behalf of the MSF in 2012, and helped to establish a more efficient governance structure by merging regional cooperative support centres with support centres for social enterprises.

### 3.3.2 Support System for rehabilitation enterprises

Rehabilitation enterprises are organizations that support economic rehabilitation and creation of income for the poor. To qualify, these organizations must satisfy the conditions set by the NBLSA and also be certified by either local government or the MW. A rehabilitation enterprise can start operations in its own right after its members, mostly recipients of NBLSP benefits, acquire two or three years of work experience on the Rehabilitation Project Groups at local rehabilitation centres. Once certified, a rehabilitation enterprise is eligible for government loans for startup and operations, become preferred contractors for central and local government projects, and receive labour cost subsidies for hiring NBLSP beneficiaries. The Korean government provides brand support and distribution channels for the goods and services produced by 1,400 or so rehabilitation enterprises today. The MW operates support centres at the local, regional and central

levels. The roles and functions of these support centres are listed below. The change of name from “rehabilitation communities” to “rehabilitation enterprises” under the amended NBLSA of July 2012 reflects a new policy objective to overcome the limits of welfare assistance by supporting the sustainable growth of self-supporting economic organizations. Local governments were expected to play an important role in the new rehabilitation enterprise programme but the current law fails to explicitly define their roles and responsibilities. This may explain why rehabilitation enterprises receive less attention and support from local governments than do social enterprises or cooperatives. Rehabilitation enterprises are also concentrated in labour-intensive service industries such as patient care, housing repair, cleaning, recycling, food service, distribution businesses and courier delivery. A number of rehabilitation enterprises, however, have set out to enhance their competitiveness by extending their business networks nationwide and/or transforming into social enterprises or social cooperatives.<sup>23</sup>

### 3.3.3 Support System for cooperatives

The Framework Act on Cooperatives (FAC) differs from other legislation concerning social economy organizations. Whereas the latter purport to provide

#### Rehabilitation centres: Roles and functions<sup>22</sup>

Type	Description
Local rehabilitation centres (247)	Entrepreneur assessment and basic training, startup support (in partnership with Rehabilitation Project Groups), local market development support
Regional rehabilitation centres (14)	Startup environment analysis, location and space analysis, training programmes, consulting, quality and service assurance, PR and marketing support
Central Rehabilitation Centre (1)	Industry-wide networks and manuals, market research and analysis, database development, etc.

<sup>22</sup> Central Rehabilitation Center, “White Paper on Rehabilitation Enterprises, 2014”, December 2015, (from [www.cssf.or.kr/new\\_home/bbs/board.asp?tbl=self\\_policy&searchpart=&searchword=&b\\_category=&sort=&sort2=&mode=V&no=101](http://www.cssf.or.kr/new_home/bbs/board.asp?tbl=self_policy&searchpart=&searchword=&b_category=&sort=&sort2=&mode=V&no=101))

<sup>23</sup> Rehabilitation enterprises may obtain social enterprise certification by proving they possess democratic decision-making structures, return their gains to society, and meet other conditions laid down by the SEPA. They may also become social cooperatives subject to the FAC by contributing to local communities, creating jobs for the marginalized and providing social services as non-profit corporations.



policy support for specific types of organizations, the FAC lays down the terms and conditions for establishing and operating cooperatives. In the early days after the Act was passed, there were growing expectations that cooperatives would receive increasing government support, even though the legislation stressed the need to limit support to indirect forms only, in respect for the basic principles – autonomy, self-sufficiency and self-governance – of cooperatives. The government, however, championed for cooperatives and the FAC, by informing aspiring cooperative founders on the administrative procedures to be undertaken.

While programmes of support for cooperatives have since diversified to include training support for management and sustainability, management consulting, and marketing support, the FAC still insists on providing indirect assistance only. KoSEA became a consigned operator of the MSF's programmes for cooperatives under the FAC in 2012 and has since been supporting local cooperatives via local support centres.

The main policy programmes that exclusively cater to cooperatives include special credit guarantees allowing cooperatives to take out loans, and collaboration projects that subsidize equipment purchases and brand development by cooperatives of artisans and craftspeople. There are also other programmes which cater to small and medium businesses and craftspeople but in which cooperatives may also participate, and which provide financial support, training and consulting, and public relations and marketing support. In spite of the growing public interest in cooperatives, there is a dearth of extensive and comprehensive support programmes catering specifically to them. As cooperatives have difficulty competing with other corporations under the current Commerce Law regime, it is crucial to reform the wider institutional environment in the interest of ensuring cooperatives can actively engage in competitive economic activities.

It is also important to remove institutional obstacles and develop a system that reinforces partnership and solidarity among cooperatives so they can share and make active use of the resources they possess.

### 3.4 Other trends in the Korean social economy today

Until recently, social enterprises have almost exclusively had to rely on government loans and subsidies for their financing. The Small and Medium Business Corporation (SBC), Smile Microcredit Bank (SMB), the Korean Federation of Credit Guarantee Foundations (KOREG) and other such public agencies were the main sources of loans and credit guarantees. In 2011, the MOEL launched a "fund of funds" to handle social investment. The Seoul Metropolitan Government also launched and raised its own social investment fund in 2012. Below is a table depicting the various means of financial support for social economy organizations in the Republic of Korea.

Financial support for social economy organizations in the Republic of Korea<sup>24</sup> Social economy organizations have significant difficulty obtaining the financing they need from financial markets, and struggle even harder to attract investment and donations. There is a growing debate on the need to develop a new and more social model of financing for these organizations. There is indeed a growing interest in crowdfunding, legislation on which has recently passed the National Assembly. Crowdfunding allows individuals and organizations to raise small amounts of money via online platforms with the participation of many. This is expected to introduce groundbreaking opportunities for social economy organizations. A major corporation in the Republic of Korea has also recently launched a project to quantify the social contributions made by some 30 social enterprises and provide different levels of incentive.<sup>25</sup>

<sup>24</sup> MOEL, A Guide to Financial Support for (Preliminary) Social Enterprise, 2014.

<sup>25</sup> Social Performance Incentive Programme: The quantitative and qualitative aspects of the performance of social enterprises (services, jobs, protection of the environment and ecosystem, ability to solve social problems and ensure job security, etc.) are quantified according to given criteria. Participating enterprises then receive different rewards according to their performance. The programme is run by the Social Performance Incentive Group, a joint project of the Korean government, the SK Group and KoSEA and launched in 2015. The programme will assess the performance of 35 social enterprises by April 2016 and provide KRW 2.5 billion in incentives, with over KRW 70 billion in cumulative support expected over five years.

Form of support	Programme	Description	Source
Loans	Microcredit loans (2008 onward)	<ul style="list-style-type: none"> <li>■ Targets: social enterprises (certified and in the making)</li> <li>■ Up to KRW100 million per enterprise, with interest rates ranging from 3% to 4.5%</li> <li>■ Repayment: Repayments of principal and interest, under varying conditions</li> </ul>	Welfare service providers (3)
	SMB Policy Fund (2010 onward)	<ul style="list-style-type: none"> <li>■ Targets: social enterprises and SMBs</li> <li>■ Up to KRW4.5 billion per enterprise (or KRW5 billion for enterprises outside the Seoul-Gyeonggi region)</li> <li>■ Interest rate: pegged to policy fund base rate (@3%)</li> <li>■ Procedure: Applications filed with SBC and beneficiaries chosen (SBC may provide loans directly or via financial institutions)</li> </ul>	SBC
Credit guarantees	Special Credit Guarantees for Social Enterprises (2012 onward)	<ul style="list-style-type: none"> <li>■ Targets: social enterprises</li> <li>■ Up to KRW400 million per enterprise</li> <li>■ 90% for for-profit enterprises, 100% for non-profit</li> <li>■ Interest rate: 4.6% for for-profit enterprises, 3.7% for non-profit.</li> <li>■ Repayment: 1 year grace period, repayments over subsequent 4 years.</li> </ul>	Local credit guarantee foundations (loans handled by IBK)
	Special Policy Credit Guarantees (2012 onward)	<ul style="list-style-type: none"> <li>■ Targets: social enterprises (certified and in the making)</li> <li>■ Up to KRW100 million per enterprise</li> <li>■ 100% guaranteed, at 0.5% per annum</li> <li>■ Interest rate: varies by credit rating (upwards of 4% per annum)</li> <li>■ Guarantee period: 5 years or longer</li> </ul>	Credit guarantee funds (loans handled by commercial banks)
Investment	Fund of Funds (2011 onward)	<p>KRW4.2 billion for Class 1 cooperatives; KRW4 billion for Class 2 cooperatives; KRW6 billion for Class 3 cooperatives</p> <p><b>Targets:</b> social enterprises (certified and in the making), businesses participating in social entrepreneur support projects, etc.</p> <p>* Enterprises recognized as “corporations” under commerce law and within 7 years from their foundation</p>	Private investors



# 4. THE SOCIAL ECONOMY IN THE REPUBLIC OF KOREA: ISSUES AND PROSPECTS

As previously stated, numerous policies have led to the advancement of Korean social economy. The following chapter focuses on the future of Korean social economy and the policy work that lies ahead to further its advancement.

## 4.1 Policy support programmes to date: Outcomes and issues

The concept of social economy has become central on the Republic of Korea's within a very short timeframe, thanks to the introduction of a series of support programmes and legislation, as well as the flourishing debate among researchers.

The Asian Financial Crisis of 1997 and the global financial crisis originating from the subprime mortgage breakdown in 2008 were an enormous shock to the Korean economy. Meanwhile, Korean industries continue to grow without creating new jobs, the Korean population is ageing at a rapid pace, and socio-economic polarization is worsening. The current situation has thus increased demand for solutions, such as the social economy. Active policy support programmes from central and local governments alike have played a decisive role in the establishment of a social economy environment in the Republic of Korea. There are over 15,000 social economy organizations in the country today, with the number of cooperatives surpassing 8,000 within only three years of FAC enactment.<sup>26</sup> The ongoing

<sup>26</sup> No social economy organizations were recognized prior to the FAC enactment. Within the first month following its enactment, 55 social economy organizations were recognized. 3000 social economy organizations were recognized after one year, reaching 6000 and 8000, after the second and third years, respectively.

government survey will soon reveal the impact and benefits of such cooperatives on the social economy.

KoSEA analyses the business reports submitted by social enterprises each year and keeps estimates and statistics on their performance.<sup>27</sup> This analysis reveals that social enterprises play a growing part in the national economy, with their aggregate revenue as a share of GDP growing from 0.01 per cent in 2008 to 0.08 per cent in 2013. Labour efficiency is also improving year by year, with the average revenue per employee multiplying from KRW16.1 million in 2008 to KRW48.2 million in 2013. Despite certain reservations in early stages stemming from the worry that government support would create a dependency on such support and thus compromise autonomy, 95 per cent of social enterprises<sup>28</sup> survive after government support ends, twice the survival rate of other types of businesses. Employee satisfaction also runs high, as 97 per cent of employees in social enterprises receive unemployment insurance protection, compared to 68 per cent of employees in other businesses.<sup>29</sup>

The narrow definition of "social enterprise" and the rigor of certification may inhibit the emergence of

<sup>27</sup> KoSEA publishes the Annual Social Enterprise Performance Analysis Reports based on the business reports submitted by social enterprises twice a year, in April and October.

<sup>28</sup> The period varies for every company from one to three years. If an organization reports the closure of business after the support, it is not counted as having survived.

<sup>29</sup> Some 91 per cent of social enterprise employees are willing to continue working at the enterprise and almost all of them state decent working condition and job security as reasons.

more diverse and creative enterprises, while the majority of social enterprises focus on creating jobs for the marginalized.<sup>30</sup> Nevertheless, these policy programmes have played a pivotal role in broadening the horizons of the Korean social economy. Still, the rapid multiplication of social economy organizations in a context of active government support has also generated a number of issues, described below, that must be resolved in order for the social economy to truly succeed and thrive in the Republic of Korea.

#### ***4.1.1 Lack of an overarching and consistent system of policy support***

It is becoming increasingly important to decide how to reform relevant policy programmes and laws so as to ensure greater consistency and coordination among central and local government organizations supporting the social economy. The current social enterprise certification system fails to encompass other similar entities – such as community enterprises, rehabilitation enterprises, social ventures and rural community companies – causing much administrative inefficiency and overlap in policy support.

The FAC, moreover, also fails to consider the eight other laws on cooperatives that were legislated previously. This situation continues to serve as a barrier to the formation of associations of cooperatives and to increasing exchange among them. Although the FAC has made it possible to create cooperatives in all industries except for finance, there are still some industries – such as distribution – that limit entry through diverse policy obstacles. Therefore, there is much demand for reform of the related laws and policies.

The government has responded to this need by launching the process to amend the SEPA (MOEL) and reform and streamline statutes on cooperatives (MSF). Both the governing and opposition parties in the National Assembly have proposed legislation of the Framework Act on the Social Economy (FASE) that would establish a consistent and comprehensive policy implementation system for the social economy in the Republic of Korea. Both parties are organizing hearings and meetings with policy experts and stakeholders on the issue.

Local governments, by nature more sensitive to civil complaints and demands, are making more active effort to reform their social economy policies. While the Framework Act on the Social Economy (FASE) draft still remains pending in the National Assembly, Seoul, Daegu and other metropolitan and provincial governments have enacted their own ordinances on the social economy through which they integrate and streamline the diverse support programmes from central government.<sup>31</sup> The active stance of local governments thus encourages us to redefine the traditional roles and responsibilities of central and local government organizations when it comes to supporting the social economy.

#### ***4.1.2 Limits on private-sector initiatives and on the autonomy of the social economy***

There is still significant concern that the government support programmes may undermine the autonomy of social economy organizations in the long run by deepening their dependence on the government and weakening their solidarity with one another. Although the private sector continues to propose new models for cooperation and collaboration between and in conjunction with social economy organizations

<sup>30</sup> For example, social ventures that serve social purposes other than the ones stated in the law (e.g., supporting developing countries) have difficulty getting certified as social enterprises. Meanwhile, organizations whose main objective is to provide social services opt to be certified as job-creating social enterprises for the sake of simplicity when it comes to paperwork.

<sup>31</sup> 9 of 16 governments enacted a social enterprise-related ordinance. Close to 60 local governments have enacted an ordinance. Korea Ministry of Government Legislation March 2017, (from <http://www.law.go.kr/lsOrdinAstSc.do?menuId=9&p1=&subMenu=1&nwYn=1&section=&tabNo=10&query=%EC%82%AC%ED%9A%8C%EC%A0%81%EA%B2%BD%EC%A0%9C&x=0&y=0#>).

through councils, industry clusters and other such means, no definitive model has yet taken hold.

It is therefore crucial for social economy organizations themselves to make active efforts to reclaim leadership and autonomy and organize more active cooperation with one another. They need to more actively seek ways to outgrow government financial support and establish an independent ecosystem of their own.

## 4.2 Prospects for the Korean social economy

Notwithstanding these issues associated with government heavy-handedness, the Korean social economy still offers a promising future in the following three respects.

### 4.2.1 Active support from the public sector

Appropriate institutional settings and the favourable stance of the government are two indispensable factors for the success of a social economy. While the Korean government has been criticized for being too heavy-handed with the support it provides, it is undeniable that the Republic of Korea possesses an advanced system of laws and policies for the social economy. The National Assembly continues to discuss and enact innovative laws, such as the one concerning crowd funding, for the growth of the social economy. The National Assembly, the central government and the private sector also continue to work well with one another, thus indicating that current issues and challenges faced by the social economy will be overcome.

The central and local governments in the Republic of Korea as well as a host of public agencies and corporations are favourably inclined toward the social economy. The entire public sector works hard to develop creative and effective programmes of support for social economy organizations. Numerous local governments, in particular, have partnered with the private sector and civil society to establish active systems of governance so as to foster and strengthen local social economies. Active

and continued support from the public sector will be central to enhancing the capabilities of social economy organizations, the vast majority of which have little chance of standing and succeeding on their own yet.

### 4.2.2 Increasing support from the private sector and non-profit organizations

Another factor that casts an optimistic light on the future of the Korean social economy is the growing number of private-sector businesses that seek to support social economy organizations as part of their corporate social responsibility campaigns. The amount of money that major corporations in the Republic of Korea spend on supporting social economy organizations continues to grow rapidly<sup>32</sup> while a wide range of non-profit organizations including the Community Chest of Korea are also increasing their support.

Some corporations have also begun to provide human resources and other non-financial forms of support in addition to financial assistance, thus helping social economy organizations overcome their chronic shortages of manpower.<sup>33</sup> Increasing support from the private sector will help social economy organizations to reclaim their initiative and leadership from the government to eventually thrive on their own.<sup>34</sup>

<sup>32</sup> For example, from 2012, the Hyundai Motor Group has supported about 120 social enterprise startup teams, with a maximum of KRW100 million per a team and a total of KRW10 billion in grants throughout the project named "H-On Dream" to promote young social entrepreneurs. Another example, the Social Performance Incentive Program of SK Group, is described in footnote 16.

<sup>33</sup> The SK Pro Bono Volunteer Corps, formed in 2009, saw 142 members advise 101 social economy organizations on 151 matters in 2014 alone, across fields as diverse as management strategy, marketing, public relations, human resources, labour relations, finance and accounting. These volunteers help to strengthen the pro bono culture in the Republic of Korea by sharing their knowledge, advice, experience and analysis.

<sup>34</sup> Since acts such as the SEPA and FAC prescribe independence of organization type and democracy of decision-making, this prevents social economy organizations from being subjugated by private capital.

### ***4.2.3 Growing system of solidarity and cooperation among social economy organizations***

The state of exchange and cooperation among social economy organizations still remains incipient but significant improvements are being made, some of which have already begun to produce tangible results. As major local governments have introduced social economy bylaws and set up integrated governance structures, social economy organizations themselves have also begun to organize their exchanges and cooperation. More and more social economy organizations are outgrowing their dependence on compartmentalized government support and are reaching out to one another to strengthen partnerships.

A good example is the increasing number of business partnerships and arrangements among social economy organizations of diverse types. Consumer cooperatives increasingly purchase goods produced by social and other such enterprises while small social economy organizations have teamed up to organize distribution cooperatives. Credit unions are increasing financial support for social economy organizations while some organizations have even taken to raising solidarity funds for mid- to long-term growth.

# CONCLUSION

The Korean government and public sector play a leading role in establishing and strengthening an institutional environment favourable to the social economy, while corporations and non-profit organizations continue to provide rich resources for the success of social economy organizations. In the

meantime, social economy organizations themselves are showing an increasing willingness to reclaim their autonomy by strengthening their solidarity and cooperation. All in all, the future of the Korean social economy remains bright.

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