Current Social Enterprise Issues and Policies in Korea

Oct. 25, 2013
Jong Gul Kim
(Professor, Hanyang Univ. of Korea)
1. Socio-Economic Problems of Korea

- **Ageing and Polarizing Society**
  - % of senior citizens over 65: 1990→2005, 5.1→9.1%
  - Gini ‘s Coefficient: 0.281 in 1990-96, 0.298 in 2003-2008.

- **Dual Economy: Chaebol-Led Economic Development**
  - Absolute and Growing Portion of Chaebol in the Economy.
  - The number of employees (over 500 employed companies) has decreased from 2.1 million to 1.3 million in the year of 1993-2005.

- **Almost Developed Country but Poor Welfare.**
  - OECD Statistics (2007) show that Korea ranked at the very bottom in terms of the ratio of social expenditures to the GDP.
  - The rate of Korean social expenditures, at 7.6% of GDP, was only 0.4% more than the rate in Mexico, which had the lowest figure in the OECD. Korea is the only country which spent less than 30 % of its budget on social welfare, actually spent 26.4%.
2. Background for Social Enterprises Promotion Policy

• Rapidly increasing unemployment and aggravated polarization since the economic crisis in 1997

• Demand for increase of social services due to the advent of an aging society, low fertility and the dismantling of the traditional family structure

• Social Enterprises Promotion Policy in Korea began as a way to solve the problem of unemployment among vulnerable social groups and expand supply of social services.

• To be a social enterprise, a company must be certified by the Minister of Employment & Labor according to the Law on the Promotion of Social Enterprises which has been in force since July, 2007.

• As of March 31, 2013, a total of 801 companies were certified as social enterprises.
3. SE Promotion Policy(1) :
The Definition of Social Enterprise in Korea

- It is restrictively defined by the Social Enterprise Promotion Act of 2007 as
  
  - a company which does business activities of producing and selling products and services while pursuing such social purposes as providing vulnerable social groups with social services or jobs, or improving the quality of life of the local residents.
  
  - a company which reinvests profits in the business or the local community putting priority on pursuing social purposes rather than on maximizing profits for shareholders or owner of the company.
### 3. SE Promotion Policy(2): The Certification System

<table>
<thead>
<tr>
<th>Criteria</th>
<th>In Specific</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of organization</strong></td>
<td>An entity must have an independent organizational type.</td>
</tr>
<tr>
<td><strong>Paid workers</strong></td>
<td>An organization must execute business activities including production and sale of goods and services by employing one or more paid workers.</td>
</tr>
<tr>
<td><strong>Types of social purposes</strong></td>
<td>An organization must belong to one of the five types of the realization of social purposes; Job-creation type, social service provision type, local community contribution type, mixed type, and other types</td>
</tr>
<tr>
<td><strong>Decision-making with the participation of stakeholders</strong></td>
<td>Important meetings of the concerned organization must have a decision-making structure which involves various stakeholders including the representatives of workers or the beneficiaries of the services, the representatives of guardians, sponsors, persons in charge at related companies or related local government, and respected persons in the local community in addition to the executives or directors of the organization.</td>
</tr>
<tr>
<td><strong>Total income and total labor cost</strong></td>
<td>The total income made through business activities for the past 6 months before the application should be more than 30% of the total labor cost.</td>
</tr>
<tr>
<td><strong>Articles of Association or Regulations</strong></td>
<td>The articles of association or regulations of the concerned organization must include ten legal items required for a social enterprise; Purpose, contents of business, name, location of the main office, type of the organization and governance, way of operation and method of decision-making about important matters, matters about profit sharing and reinvestment, matters about investment and loans, matters about composition of personnel and their appointment and dismissal, matters about liquidation and settlement, and others (matters about branches of social enterprises, funding and accounting, etc.)</td>
</tr>
<tr>
<td><strong>Reinvestment of profits</strong></td>
<td>A company according to commercial law must include the following phrase within the articles of association or regulations of the concerned organization in relation to the reinvestment of profits.</td>
</tr>
</tbody>
</table>
3. SE Promotion Policy(3) : The Certification Procedures

- Prior consultation on the satisfaction of formal requirement (compulsory) (Support organization in each region)
- Application and acceptance at KoSEA (KoSEA)
- Actual inspection of the applying organization (KoSEA and the Support organization in each region)
- Recommendation by central departments and local governments (central department and local government)
- Prior review by Certification Sub-committee (Dept. of Employment & Labor)
- Deliberation by Professional Committee for Promotion of Social Enterprises (Dept. of Employment & Labor)
- Certification by Minister of Employment & Labor (Dept. of Employment & Labor)
### 3. SE Promotion Policy(4) : SE and PSE (Preliminary Social Enterprise)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Relevant provision</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Enterprises</strong></td>
<td>Social Enterprises Promotion Act</td>
<td>1. Type of organization.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Conduct business activities by hiring paid workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Realize social purposes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. <strong>Decisions are made with the participation of stakeholders.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. <strong>Make profits through business activities (sales should be more than 30% of labor cost.)</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>6. <strong>Must have articles of association and regulations.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>7. Reinvest more than two thirds of the profits for the realization of social purposes (in the case of a corporation according to commercial law)</td>
</tr>
<tr>
<td><strong>Preliminary Social Enterprises</strong></td>
<td>Regulations on the Support for SE Promotion</td>
<td>1. Type of organization.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Conduct business activities by hiring paid workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Realize social purposes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Reinvest more than two thirds of the profits for the realization of social purposes (in the case of a corporation according to commercial law)</td>
</tr>
</tbody>
</table>
4. Statistical Information(1):
The Number of SE and PSE
4. Statistical Information(2):
The Number of SE by the Social Purpose

- Job Creation: 62%
- Local Community Contribution: 16%
- Mixed: 14%
- Other: 7%
- Social Service Provision: 1%
4. Statistical Information(3): The Number of SE by the Industrial Classification

- Etc: 289
- Nursing: 58
- Forest Conservation: 1
- Childcare: 22
- Culture: 128
- Environment: 137
- Social Welfare: 102
- Health Care: 13
- Education: 51
4. Statistical Information(4):
The Number of Certified SE Workers

- the total number of employees
- the number of vulnerable employees

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1403</td>
<td>4832</td>
<td>6467</td>
<td>8227</td>
<td>10018</td>
<td>11443</td>
<td>11618</td>
</tr>
</tbody>
</table>
5. Was it Successful?

- YES. It is undeniable that this policy has had a great effect on the quantitative growth of social enterprises in Korea.

- But,
  - there are always risks for social enterprises to be slowly transformed into some kinds of subsidiaries of public agencies.
  - How can we make the social enterprise sustainable in Korean context.
6. What are the Next Step?

1) Up-grade as a national agenda

- Among 140 national policy agenda of New President, ‘Promotion of Social Enterprise and Cooperatives’ is included. However, more attention is needed and relevant implementation measures should be designed.

- the U.K.’s David Cameron government’s agenda, Big Society.

2) Integrating related policies under the concept of Social Economy

- There are several duplicated policies conducted by different ministries in Korean government.

- If we define the social enterprise as ‘performing the social purpose with an entrepreneurial spirits’, other several programs can be included in this area.
6. What are the Next Step? (CONT’D.)

- In this situation, the concept of **Social Economy** is useful.

- OECD(2007, *Social Economy; Building Inclusive Economies*) defines the social economy as “An organization that has social and economic aspects and belongs between a state and market”.

- The concept that includes cooperatives, mutual and association, social enterprise, NPO, etc.

- But, breaking the bureaucratic egoism is very difficult.
<table>
<thead>
<tr>
<th>The ministry concerned</th>
<th>Social Enterprise</th>
<th>Village Enterprise</th>
<th>Agriculture &amp; Fishery Community Company</th>
<th>Self-sufficiency/ support Program</th>
<th>Senior Employment Program</th>
<th>Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>A company which does business activities of producing and selling products/services while pursuing social purposes such as providing vulnerable social groups with social services or jobs</td>
<td>A company producing sustainable income and jobs through locally led business and various specialized resources of community</td>
<td>A company hiring beneficiaries of national basic living security program <em>more than 1/3</em> of workers</td>
<td>A company providing opportunities for seniors of creating income and making social participation</td>
<td>A business organization that intends to enhance its partners' rights and interests and so contribute to local communities</td>
<td></td>
</tr>
</tbody>
</table>
## State of Social Economy in Korea (CONT’D.)

<table>
<thead>
<tr>
<th></th>
<th>Social Enterprise</th>
<th>Village Enterprise</th>
<th>Agriculture &amp; Fishery Community Company</th>
<th>Self-sufficiency/ support Program</th>
<th>Senior Employment Program</th>
<th>Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial aid</strong></td>
<td>Labor cost, social insurance, consulting, half off of corporate income tax</td>
<td>USD 75,400 per a company including occupancy expenses and consulting</td>
<td>USD 47,100 per a company including product development expenses and consulting</td>
<td>Labor cost, business loan in the early stage</td>
<td>Labor cost, incidental expenses, (operating expense for an market entry type)</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Number</strong></td>
<td>856</td>
<td>781</td>
<td>720</td>
<td>1,342</td>
<td>220,000</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Budget (USD, 2013)</strong></td>
<td>184 million</td>
<td>19 million</td>
<td>2 million</td>
<td>446 million</td>
<td>208 million</td>
<td>2 million</td>
</tr>
<tr>
<td><strong>Middle manager</strong></td>
<td>KoSEA, support organization in each region</td>
<td>support organization in each region</td>
<td>Korea Rural Community Corporation</td>
<td>Self-sufficiency/ support center in each region</td>
<td>Korea Labor Force Development Institute for the Aged</td>
<td>KoSEA</td>
</tr>
</tbody>
</table>
6. What are the Next Step? (CONT’D.)

3) Strengthen the connection of government budget toward SE

- Logically, Possible. Political Willingness matters.

- For example, Lots of the “Job Creation Budget” (Approx. USD 2.8 billions in 2012) can be used under the Social Economy.

4) Accomplishing Corporation Circles of Social Economy

- Main actors of social economy, namely, social enterprise, cooperative, NPO should collaborate effectively.

- In addition, cooperation circles must be enlarged to the companies, labor unions, religion org., educational institutions, volunteering org. (ex. Lions Club) via ethical consumption and investment.
Concentric Circle of Development in Social Economy

Integrated Policy Provision with Vision

Gov. job creation budget
Gov. social service budget

Coop.
Volunteering org.
Educational Institutions

NPO

Social Enterprise

Labor Union
Religion org.

Social Entrepreneur
5) Nurturing Social Entrepreneurs

- Creative and devoted social entrepreneurs are essential.
- But, Job as a social entrepreneur is not so attractive in Korea.
- How can we increase the attractiveness.
- scholarship? fund for establishment? We are under experiment.
THANK YOU!!!