

Social Economy and Public Policy Development: A South Korean Case

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1. Introduction: Growth of Korean Social Economy

Korea is well known for its rapid growth, often described by the symbolic phrase "Miracle of the Han River." Rising from the ashes and devastation of the Korean War, Korea has become one of the world's leading economies. While this rapid growth brought wealth and pride to many Koreans, it also created a series of socio-economic problems such as dominance of *Chaebol*, bipolarization, inefficiency of government-driven market economy, etc. In addition, the IMF Bailout in 1997 totally restructured the whole Korean society, putting Korea under the order of global neo-liberalism. The middle class and small businesses collapsed, worsening the polarization of the Korean society and making the life of many ordinary families miserable. The Korean government, however, decided to go on a path that focused on surviving amongst global competition rather than sharing and solidarity in its macroeconomic policy: the government concentrated more resources to the selected few, namely *Chaebol* and large corporate groups, with unemployment worsened and many small businesses suffered. This time of economic hardship and social polarization was the background of the emergence of Korea's social economy. During the first decade of the 21st century, some leaders in the third sector found social economy a new and effective way to address many socio-economic issues that Korea faced and tried to spread the social economic way of life in Korean society. Then the government joined this movement and actively tried to develop and apply social economic policies in Korea.

This paper highlights the development of social economy in Korea during recent decades. Emphasis of the research lies on public policy developments specific to the social economy in Korea. It provides an overview of how social economy is conceptualized, how it developed in Korea, and what role it plays in public policy as an innovative approach to solve Korea's socio-economic problems. The paper is broadly divided into three main sections. The first section illustrates the state of Korean social economy, pointing out its unique features from historical context. Then process and structure for developing and implementing public policies for Korean social economy are described. Finally, impact and issues of current policies are discussed, with some policy suggestions.

2. State of the Field: A Snapshot of Korea's Social Economy

1) The Conceptual Definition and Scope of Social Economy in Korea

The concept of social economy in Korea has embraced a wide range of organizations; depending on the context that it is used. In general, social economy is defined as the human economic activity carried out in the spirit of mutual caring, sharing principle of reciprocity and redistribution to economic means (Hong, 2009). On this ground, a social economic organization can be broadly described as "an organization that does economic activities in a cooperative, value-oriented manner and cares for solidarity and sharing, pursuing both social and social values." In Korea, different types of social economic organizations emerged in different historical circumstances, including Korea's colonial experience, the Korean War, and authoritative governments in the 1970s and 1980s. Therefore, Korean social economic organizations show very diverse trajectories of development, and this diversity has been one of the reasons that there is no conceptual consensus on the scope and the definition of social economy in Korea.¹

One of the most critical issues in defining the scope of Korean social economy is whether government-led large-scale cooperatives in Korea such as *Nonghyup*² (National Agricultural Cooperatives Federation) or NFCF (National Federation of Fisheries Cooperatives) should be considered as social economic organizations. In general, cooperatives are believed to be an important organizational form of the social economy like NPOs and social enterprises. Accordingly, discussions on Korea's social economy have sometimes included the type of large cooperatives such as *Nonghyup* and NFCF. Some commentators pointed out, however, that Korea's government-led large cooperatives such as *Nonghyup* or NFCF should not be categorized as social economic organizations (e.g. Shin, 2007). They argued that a cooperative is generally defined as an organization made voluntarily by workers or stakeholders based on alternative economic activities and large cooperatives in Korea were established as a sort of public enterprises for the political needs of the military government

¹ Roh (2007) categorized social economic organizations based on the dependency on government, while Shin (2007) grouped social economic organizations by the economy activities the organizations perform. Uhm (2008)'s categorization considered the historical backgrounds of the emergence of each type of social economic organization, including the social economic organization mainly created by government drive.

² The term *Nonghyup* is widely used to describe both types of agricultural cooperatives - the NACF and local member cooperatives of the NACF.

in the 1960s.

This argument is valid in that any attempt to define social economic organizations needs to consider how well the principles of social economy are embodied in the organizations. Nevertheless, given the characteristics of the process of economic development in Korea and the gradually increased private initiatives of these large cooperatives, it is more reasonable to include large cooperatives and similar organizations as social economic organizations in the discussion on Korea's social economy. In this paper, therefore, large cooperatives such as *Nonghyup* were included as *traditional* social economic organizations, which had been established before Korea's social economy rapidly grew. These organizations, however, cannot be regarded as more important in the Korean social economy scene than the new social economic organizations like social enterprises in any sense. Rather it would be helpful to include these large cooperatives in the discussion of Korean social economy in a limited manner and to separate them from new social economy sector. For example, in this paper, these two different types of social economic organizations were separately considered in estimating the size of social economy in Korea.

Although there is no fully agreed consensus in Korea on the definition of social economy, any definition of social economy in Korea generally emphasizes reciprocity, sharing, and solidarity. This is why social economy is viewed as a very strong and effective alternative to overcome problems brought about by neo-liberal, market capitalism. In Korea, a social economic organization refers to a wide range of organizations such as social enterprises, social cooperatives, and related entities. A more specific list of social economic organizations would include social enterprises; community businesses; self-sufficient community enterprises; many types of cooperatives (i.e. labor union cooperatives, consumer cooperatives, childcare cooperatives, etc.); organizations for the local exchange trading system, micro-credit, fair-trade, and local food; non-profit organizations, etc. In addition, traditional large cooperatives can be included in the discussion on Korean social economy: National Agricultural Cooperative Federation (*Nonghyup* or NH); National Federation of Fisheries Cooperatives (NFFC); National Forestry Cooperative Federation (NFCF); Korean Federation of Community Credit Cooperatives (KFCC); National Credit Union Federation of Korea (NACUFC), etc. (See Table 1)

<Table 1> Components of Korean Social Economy – Traditional vs. New Type

Traditional Social Economy	Large Cooperatives	National Agricultural Cooperative Federation (<i>Nonghyup</i> or <i>NH</i>)
		National Federation of Fisheries Cooperatives (NFFC)
		National Forestry Cooperative Federation (NFCF)
		Korean Federation of Community Credit Cooperatives (KFCC)
		National Credit Union Federation of Korea (NACU FK)
New Social Economy	NPOs	NPOs who do a variety of business
	New type of Coops	Consumer Cooperatives and Social Cooperatives
		Coops of Labor Unions
Social Enterprises	(Pre-Certification) SEs, SEs, Community Business, etc.	

Source : Uhm (2008), revised by the authors

2) Korean Social Economy at a Glance: Traditional vs. New Social Economy and Their Contribution to National Economy

Estimating a full size of South Korea's social economy is not an easy task. It is because there is a large deviation in the scope of 'social economy' in Korea, as mentioned above. Specifically, the total estimate could vary depending on whether traditional organizations such as large cooperatives are included.³ If we consider both types - traditional and new - of social economic organizations together, the size of the Korean social economy is approximately 3.04% of Korea's national GDP in 2011.⁴

A. The traditional social economy

The size of Korea's social economy could be considerable even among the countries where

³ For example, including Nonghyup in estimation of social economy will make a large difference, as it is ranked world's third largest cooperative by the International Cooperative Alliance in 2008.

⁴ At the writing of this paper, there is no official data of the government on the size of Korean social economy.

social economy is well-developed, if we consider traditional social economy sectors such as *Nonghyup*⁵ or the National Credit Union Federation of Korea (NACUFK). These ‘traditional producer cooperatives’ have approximately 1,400 member cooperatives and 3 million members as of 2009. As of 2011, these cooperatives also had about 30,000 employees. Traditional cooperatives are usually engaged in two major businesses: economic business such as production, marketing, distribution, and credit business such as banking and insurance. Total size of its economic business amounts to 37 billion US dollars (in 2009), which accounts for almost half of total production in Korea from agriculture, forestry, and fishery. If we count in the financial services of credit unions (NACUFK and KFCC), the size of the traditional social economy becomes even bigger. NACUFK and KFCC have approximately 2,500 member branches and 20 million members as of 2009. The total number of employees of these organizations is about 39,000, and the total size of their assets amounts to 117 billion U.S. dollars.

As a whole, traditional organizations in Korea have approximately 24 million members and 3,800 member (branch) organizations with 30,000 employees. The total gross sales of these organizations amount to 154 billion U.S. dollars.⁶ These figures overwhelm the size of *new* social economic organizations in Korea, which are more social in nature than traditional large cooperatives. The figures are also one of the reasons that Korea’s social economy has been known to be sizable, compared to other countries. It is more widely accepted, however, that these large cooperatives should be separately thought in making and implementing social economy policy because the achievement of these cooperatives has been made without depending on the fundamental operating principles of a social economic organization. Thus, most of policy programs for promoting social economy in Korea do not regard the large cooperatives as policy targets.

B. New Type of Social Economy

Consumer cooperatives, self-sufficient community enterprises, social enterprises, community businesses, and other related organizational forms have emerged as a new social economy sector and functioned as *real* social economy organizations in Korea, compared to

⁵ *Nonghyup* merged National Federation of Livestock Cooperatives in 2000.

⁶ Source: annual reports of each organization

the traditional large cooperatives. The total size of this *new* social economy is estimated to be approximately 0.04 % of Korea's GDP. Ministry of Employment and Labor (2013) reported that social economy sector accounts for approximately 0.4% of total employment in Korea.

Social enterprises expanded rapidly in recent years. As of July 2013, there are total of 856 certified social enterprises in Korea, and these social enterprises employ 19,925 people (MOEL, 2013). The number of social enterprises at the stage of pre-certification (Pre-certification SEs ⁷) is 1,425 and this number has continuously increased over the recent years.

<Table 2> The status of Korea's new social economic organizations

Organization Type		Number of Member Organizations/ Branches	Number of Members (person)	Number of Paid workers (person)	Gross Sales (USD)
Social Enterprises	Certified SEs (2013)	856	-	19,925	610 mil. (2011)
	Pre-Certification SEs (2013)	1,425	-	N.A.	N.A.
	Self-sufficient businesses ⁸ (2012)	4,172	-	98,146	N.A.
	Community Businesses (2012)	787	-	3,145	43 mil.
	Total of SE-like organizations	7,240	-	121,216	653 mil.
Cooperatives	Consumer Cooperatives (2011)	115	412,477	2,534	478 mil.
	Medical Cooperatives (2011)	13	19,320	467	10 mil.
	Childcare Cooperatives (2011)	71	1,873	375	134 mil.
	General/Social Coops(2013)	2,388	N.A.	N.A.	N.A.
	Total of Cooperatives	2,587	433,670	3,376	622 mil.
Total New Social	Total	9,827	433,670	124,592	1,275 mil.

⁷ The Korean government has operated a certification system for social enterprises since 2007. This system will be described in a more detailed manner in the following section.

⁸ These figures include both self-sufficiency businesses and self-sufficiency assistance group, which is an early-stage organization of self-sufficiency business.

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C. Emergence of Social Economy Network and New Intermediary Organizations

With rapid expansion of new social economy, a number of network organizations have emerged. Many of these network organizations were formed to actively respond to the policy drive of the government for social economy sector, which has been apparent after the legislation of Social Enterprise Act in 2007. For example, Korean Central Council of Social Enterprise (KCCSE) was established in 2008 and local branches of KCCSE has been created since then. KCCSE is a national network organization of social enterprises in Korea, and have made efforts to create more friendly political environment for its member organizations. Likewise, setting policy agendas for social economy is one of the very important missions of the network organizations, and major network organizations such as KCCSE or Seoul Social Economy Network (SSEN) have been closely collaborating with central and local governments in developing social economy policy and implementing the policy programs.

3) A Brief History of Korean Social Economy and Policy Development

The direct roots of Korea's social economy can be traced to poverty reduction movements which became widely spread in the mid-1990s. This movement became more active after Korea's IMF Bail-out in order to overcome the socio-economic challenges that Korea faced then such as increased poverty and unemployment, and brought forth many social economic organizations. Of course, government-led large cooperatives had existed since the early 1960s and there had been noticeable anti-poverty activist organizations in Korea since the 1960s. These organizations, however, should not be regarded as social economic organizations (with a few exceptions) because most of them were did not rely on the principles of social economy and had no clear characteristics of social economy. This difference is especially important when we discuss on social economy policy. Thus, it is more reasonable to see the response to the economic crisis in the 1990s as the beginning of current Korean social economy scene (Lee, 2010). This poverty reduction movement has expanded

since the mid-2000s with government support, and many social economic organizations have spurred from the movement. Since 2007, when the Social Enterprise Promotion Act was enacted, many of these organizations have been certified as 'social enterprises' by the Korean government and earned more systematic support, including government subsidies.

A. The colonial era to the pre-legislation period (1920 ~ 2003)

Tracing back the history of Korea, we can find strong social economic traditions such as *Dure*, *Gye*, and *Pumasi*⁹, which originated from the ancient agricultural society, embedded in Korea's social and economic system. Some researchers (e.g. Chang, 2006) claim that the modern social economy in Korea actually begun from the political cooperative movements under the Japanese rule (the *Buy Korean* Movement in 1920 could be an example). These traditions, however, were almost discontinued after 1945 when Korea was liberalized, going through rapid urbanization and industrialization, as well as the Korean War. Therefore, it is more reasonable to separate these traditions from the beginning of the formation of Korea's social economy (Lee, 2010).

The current social economy scene of Korea originated from the third sector movement based on civic participation, as in European experiences. In the 1970s and 1980s, various small grass-root organizations began to emerge in the anti-poverty activities to meet the needs of the less-fortunate people: production worker cooperatives; child-care cooperatives; medical care cooperatives; consumer cooperatives; cooperative tutoring center, etc. These organizations became a prototype of a variety of social enterprises, and many of them were certified as social enterprises later. One exception was production worker cooperatives, especially in construction and the sewing industry. Production worker cooperatives in these two industries basically tried to utilize the labor of the poor workers and penetrate into the market by achieving an economy of scale. The effort was effective for a while (mainly until the early 1990s), but failed to scale up mainly due to the increased competition with low-cost Chinese products and the lack of management capabilities and investment.

⁹ *Pumasi* refers to exchanging labor. This tradition started centuries ago when it was not easy to find laborers to work in the fields. Once the farmers lend their hands to others, then they can expect those who were helped to repay with hands when asked. *Pumasi* has been a long tradition in Korea and is partnership easily seen in even urban settings these days.

Anti-poverty activist organizations that led the experiment of production worker cooperatives later had another shot at cooperative start-up projects. This time the government was a partner by funding a number of related pilot programs. For example, 'Self-sufficient (self-help) Community Enterprise Project' of the Ministry of Health and Welfare in 1996 gave room for activist organizations to establish cooperative community businesses among the poor. 'Citizen-driven Job-Creating Program' of Work Together Foundation was also a noteworthy pilot project that helped the people poverty-stricken after the Asian financial crisis in 1997. Work Together Foundation, formed as the National Citizen Council on Solving Unemployment by a national initiative of civic organizations and the government, was one of the first organizations that started to use the term "social enterprise" in Korea. While they continued to demand the government carry out policies that create sustainable jobs and operate a number of pilot programs, the Foundation hosted an international symposium on social enterprises in 2001, thereby introducing social jobs and social enterprise in Korea.

In 2002, the National Basic Life Security Act was enacted. This law resulted in the increase of self-sufficient community enterprises by providing government subsidies to selected businesses. Many self-sufficient community enterprises who had to compete with for-profit businesses in the market, however, ironically suffered in the changed environment, as they tended to depend on the government subsidies for labor cost. With the limitation of self-sufficient community businesses and production worker cooperatives, the interest in social enterprises has increased among the third sector in Korea.

B. Introduction of 'Social Jobs' strategy in Policy (2003 ~ 2006)

The Roh administration, kicked off in 2003, actively tried to address challenge of the *new poor* by adopting a number of new employment policies. One of main strategies was creating 'social jobs'. Social jobs in Korea referred to the jobs offered for the poor and the disadvantaged in the labor market, and the Korean government - specifically Ministry of Labor - took the initiative to provide many grass-root organizations with subsidies to make them create new employment for the poor, which secured minimum wage for the unemployed poor. This was the first time that the Korean government projected social enterprises as a new strategy for the government's employment policy.

The social job creation program has expanded over the years, and many non-profit and grass-root organizations attempted to establish their own social enterprises with its help. At

the same time, intermediary organizations such as the Work Together Foundation and the Social Solidarity Bank started to build up support mechanisms for social enterprises such as loans for social entrepreneurs on the side of civic sector. One noteworthy result of this effort is *Gyobo-Dasomi* Care Service, developed in 2004. This was the first model in which an NPO (Work Together Foundation), government (Ministry of Labor), and company (Gyobo Life Insurance) collaborated to establish a social enterprise and drew significant media attention. All these efforts landed in the launch of a government task force team for the legislation of social enterprises to lay a foundation for a full-fledged social enterprise policy.

Leading groups in the social enterprise scene started to diversify in this period as well. Prior to 2003, self-sufficient community enterprises and anti-poverty activist organizations were dominant in the social enterprise field of Korea. Since 2003, however, a new group of organizations emerged as a driving force in the field, from social service organizations to social ventures that college students established. This new group expanded the horizon of the products and services provided by social enterprises. Previously most of social enterprises in Korea had been social service companies such as nursing care. But the newly formed social enterprises spread out to a wider range of business sectors, including environment-friendly local food distribution, sustainable tourism, alternative energy, fair trade, regional development, multi-cultural family support, etc.

C. The Strong Drive for Social Enterprise Fostering (2007-present)

With real success stories, social enterprises drew a lot of attention from policy makers and civic sector leaders as an alternative approach to solve unemployment and poverty. Thus, the Social Enterprise Promotion Act was legislated in November 2006 and enforced in July 2007, to create the infrastructure for adopting social enterprises as a policy tool. This Act, as will be discussed in the following section, provided for a certification system for social enterprises, so any organizations who want to be labeled as a social enterprise have to be certified by the government (Ministry of Labor). Until 2011, a total of 644 organizations have been officially certified as a social enterprise by the Ministry of Labor.

During the final year of the Roh administration, social investment was suggested as a new direction in government policy to address socio-economic issues and to build a stronger infrastructure for social enterprise. However, with the start of the conservative Lee

Myung-Bak administration in February 2008, social economic government programs were delayed or put on hold, mainly because of the government's spending cut. When the global financial crisis was at its peak in fall 2008, the Lee administration changed its political stance and decided to increase the budget for social economy. The government focused on job creation by social enterprises, which was one of top 100 policy initiatives of the Lee administration. Social economy was not only the interest of central government but also that of many local governments: in the 5th local elections of Korea in 2010, a fair number of candidates promised to foster social economy to mend regional disparities and economic hardship. After the election, many municipalities from big metropolitan regions to small cities enacted ordinances and established task forces to support social enterprises. Some ministries of the central government started their own policy programs for fostering social enterprises, apart from those of the Ministry of Employment and Labor.¹⁰ Such programs focused mainly on promoting new start-ups of social nature and leading them to grow to pre-certification social enterprises. Examples include the Local Community Job Creation Project (Ministry of Administration and Security), the Community Business Pilot Project (Ministry of Knowledge Economy), and the Rural Community Company Program (Ministry of Agriculture, Forestry, Fisheries and Food).

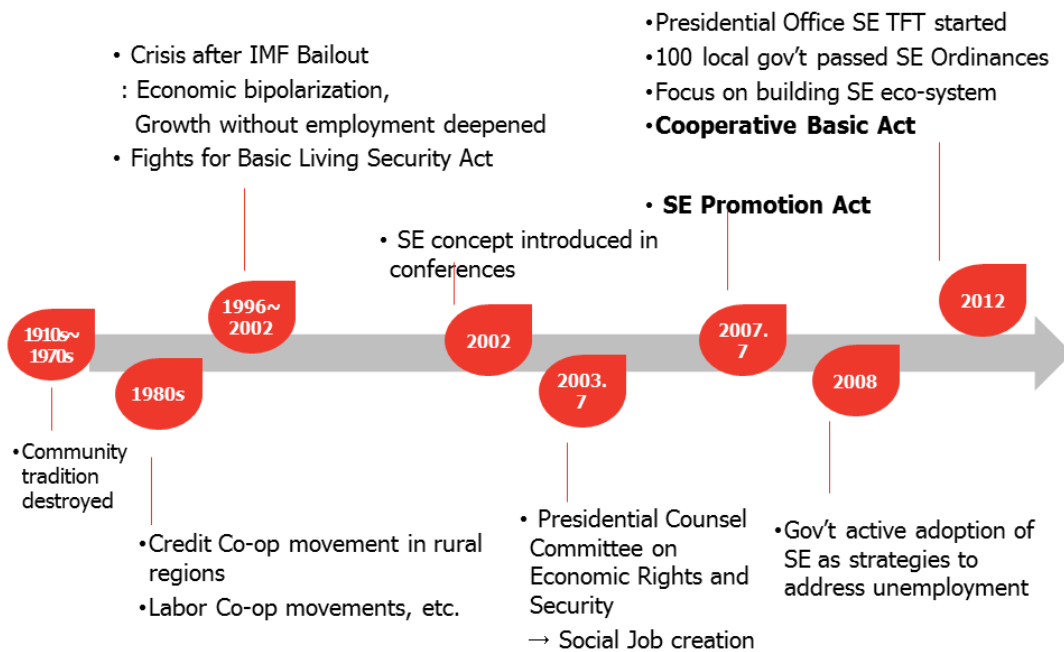
<Table 3> Development Stages of Korean Social Economy

Periods	Milestones
Pre-Institutionalization (1920~2003)	<ul style="list-style-type: none"> • Social movements such as cooperative movement, anti-poverty activism survived, with discontinuity from traditional system. • New types of social economy rose from the urban community in the 1990s • Twenty self-sufficiency community center established production companies based on the unemployed community • Some public services commissioned to grass-root organizations such as self-sufficiency community enterprises, with government subsidies • Prototypes of social jobs (mainly rudimentary service jobs) offered • Third sector organizations started to build new social enterprises • National Basic Living Security Act enacted - Increase and spread of self-sufficiency community enterprises

¹⁰ Ministry of Labor changed its name to Ministry of Employment and Labor in 2010 as a symbolic gesture that emphasizes the importance of employment.

	<p>→ Labor-integrated social enterprises emerged</p> <ul style="list-style-type: none"> - 242 self-sufficiency support centers, more than 1,000 self-sufficiency business units, and 3,300 self-sufficiency communities established
<p>Institutionalization (2003-2006)</p>	<ul style="list-style-type: none"> • Introduction of 'Social Job' creation programs - Laws and regulations created and restructured to address the unemployment issues
<p>Growth of Social Economy (2006-Present)</p>	<ul style="list-style-type: none"> • Social Enterprise Promotion Act enacted and enforced (2007) - Laid a foundation for transforming social job projects to social enterprises - A new type of social enterprises increased - 680 certified social enterprises → Government target = 1,000 social enterprises in near future • Cooperatives Basic Act enacted (2011) and enforced (2012) • Localization of social enterprise policies - Seoul and Chungnam led the initiatives of localized social economy policy programs.

<Figure 1> Timeline of Social Economy Development in Korea



Source : Lee (2012)

From 2010 onward, Korea's social economy entered the phase of localization. A number of local governments started to adopt social economy as a new paradigm for regional development as mentioned above and to develop local policies to cultivate social economy in their regions. Some of the leading municipalities such as Chungcheongnam-do(*Chungnam*) set-up a master plan for social economic development. Furthermore, Seoul, the largest regional economy in Korea, elected Mr. Won-Soon Park who had been working in social economy field for a long time as its new mayor in 2011. Since then Seoul Metropolitan Government put immense emphasis on social economy and started a number of policy initiatives. By the end of 2011, more than 100 local/municipal governments in Korea enacted ordinances to promote social enterprises. In addition, these local governments set up new teams or converted existing teams for social enterprise.

3. Developing Public Policies for Korean Social Economy – Process and Structure

Social Economy of Korea has been influenced by a series of policy initiatives. The establishment of traditional cooperatives was backed up by the national government. Growth of new social economic organizations was also mainly spearheaded by social enterprises, which was the results of government policy drives with support from the third sector. The First Basic Plan for Social Enterprise Promotion laid out by MOEL in 2008 is a good example of the governments’ efforts that tried to lead social economy. At the backbone of these efforts are major legislation related to social economy. Most of policy programs, especially those of the central government, are designed based on these legislations.

1) Social Economy-related Legislation

The Korean laws related to social economy encompass the Social Enterprise Promotion Act, the Cooperative Basic Act, the Basic Living Security Act, and eight individual cooperative-related acts (See Table 4). Among these, the core legislations on social economy - Social Enterprise Promotion Act and Cooperative Basic Act - are briefly described below.

<Table 4> Legislation related to Social Economy in Korea

Type	Policy target	Laws/Ordinance (Date of Enforcement)
Laws	Social Enterprise	SE Promotion Act (2007.7.1)
	Cooperatives	Cooperative Basic Act (2012.12.1)
	<i>Nonghyup</i>	Nonghyup Act (1967.2.4)
	SME Cooperatives (small and medium-sized companies)	SME Cooperatives Act (1961.12.27)
	National Federation of Fisheries Cooperatives (NFFC)	NFFC Act (1962.1.20)

	Cigar Production Cooperatives (CPC)	CPC Act(1963.5.29)
	National Credit Union Federation of Korea (NACUFK)	NACUFK Act (1972.8.17)
	National Forestry Cooperative Federation (NFCF)	NFCF Act (1980.1.4)
	Korean Federation of Community Credit Cooperatives (KFCC)	KFCC Act (1982.12.31)
	Consumer Co-ops	Consumer Life Cooperatives Act (1999.2.5)
	Self-Sufficiency Company	Basic Living Security Act (2000.10.1.)
Ordinances	Social Economy	Chungnam SE Promotion Ordinance
	Social Enterprises	SE Promotion Ordinance (more than 100 local governments)
	Self-Help Fund	Self-Help Fund Ordinance (for Self-sufficiency group)

Source : Chungnam Development Institute (2012)

A. The Social Enterprises Promotion Act

The Social Enterprises Promotion Act was promulgated on January 13, 2007, and enforced from July 1, 2007. The purpose of this Act is "to contribute to the enhancement of social unity and the quality of life of citizens by supporting social enterprises in the creation of new job opportunities and the expansion of social services that have been undersupplied" in Korea. (MOEL, 2012) The Act stipulated the installation of the Social Enterprise Promotion Committee, which deliberate on matters concerning the authentication, planning, and various support for social enterprises. In order to be certified as a social enterprise by law, an organization needs to meet seven criteria: organizational form; employment of paid workers; actualization of social purpose; democratic decision-making structure; revenue from operation; a written memorandum; and re-investment of profits. (MOEL, 2012, See Table 5 for details.) These conditions were set up to clarify the target of support, as well as to induce the conversion of organizations that have been operating with social purpose to social enterprises by providing a legal basis.

The Social Enterprise Promotion Act also stipulates government support for social enterprises. By this law, a social enterprise is able to receive a number of government

supports: management support; financial support; tax cuts and social insurance support; preference in public procurement; preference in commissioning of government's provision of social services; tax exemption on the linked businesses; to name a few.

<Table 5> The Certification Criteria for Korean Social Enterprises

Component	Criteria
Credibility	1) Incorporated as a company or Non-profit / Co-Ops * Must operate for more than 6 months
	2) Must have a written memorandum
Social Purpose	3) Must have a social purpose : - 30 % of employment should be the disadvantaged or - at least of 30% of biz should be focused on providing social service
	4) Must have a democratic governing structure & social ownership
	5) Must re-invest the portion of revenue to social-purpose activities - 2/3 of profit should be re-invested if an organization is for-profit
Nature as business	6) Must employ at least one paid-workers / Comply with Labor Law
	7) Must create profits to cover more than 30% of labor costs

Source : Ministry of Employment and Labor (2011)

Social Enterprises Promotion Act of Korea is viewed as a major contribution to the initial growth and spread of social enterprises. Several issues, however, have been raised on the Act, as it is not very inclusive in terms of social purpose of an organization to become a social enterprise, as well as the scope of service a potential social enterprise should provide. In addition, the Act is criticized for causing social enterprises to rely too much on government support, as main emphasis of support programs for social enterprises by law lies on subsidies for labor cost. Since the current certification system cannot embrace a wide range of new organizations with social purpose, which have recently emerged, Korean government is considering to change the certification system to the 'registration system' of social enterprises. If this happens, any organizations with social focus will be able to register as a social enterprise and the government will authenticate excellent social enterprise with a different system. In the long run, Korean government considers to create a new legal entity (corporate type) for organizations with social purpose like Community Interest Company

(CIC) in the U.K.

B. The Cooperative Basic Act

The Cooperative Basic Act was promulgated on January 26, 2012 and enforced on December 1, 2012. This act stipulates the basic principles of establishing and operating cooperatives to promote independent, self-reliant, autonomous cooperatives, thereby contributing to the balanced development of the national economy and facilitating social integration. There are two types of cooperatives defined in the Act: one is 'cooperatives' and the other is 'social cooperatives.' Cooperatives refer to business organizations who wish to contribute to the community by collectively carrying out the purchase of goods or services, production, sales, or distribution among their members. On the other hand, social cooperatives mean a special type of cooperatives which are non-profit and aim to improve the welfare of local residents, or provide the disadvantaged with jobs and/or social services. (See Table 6)

The New Cooperative Basic Act eased the establishment process of cooperatives: before, cooperatives could be founded only based on the special laws such as *Nonghyup Act*. Since the Basic Act, it is now possible to establish a cooperative with five members and registration to local governments.¹¹ Eight large cooperatives established before the Basic Act are not affected by the Act. . Cooperative Basic Act is expected to play a key role in vitalizing the establishment and operation of cooperatives and to contribute the growth of social economy in Korea.

<Table 6> The Definition of Cooperatives and Social Cooperatives by the Korean Government

Type	Cooperatives	Social Cooperatives
Legal Status	Incorporated	Not-for-profit organizations
Establishment	Registering with Local Gov't	Approval by the Ministry of Strategy and Finance (or related agencies)

¹¹ Financial businesses basically do not qualify as new cooperatives, as Korea has strong regulation on starting a financial institution. Social cooperatives can only do financial business like micro-credit as a supplementary business.

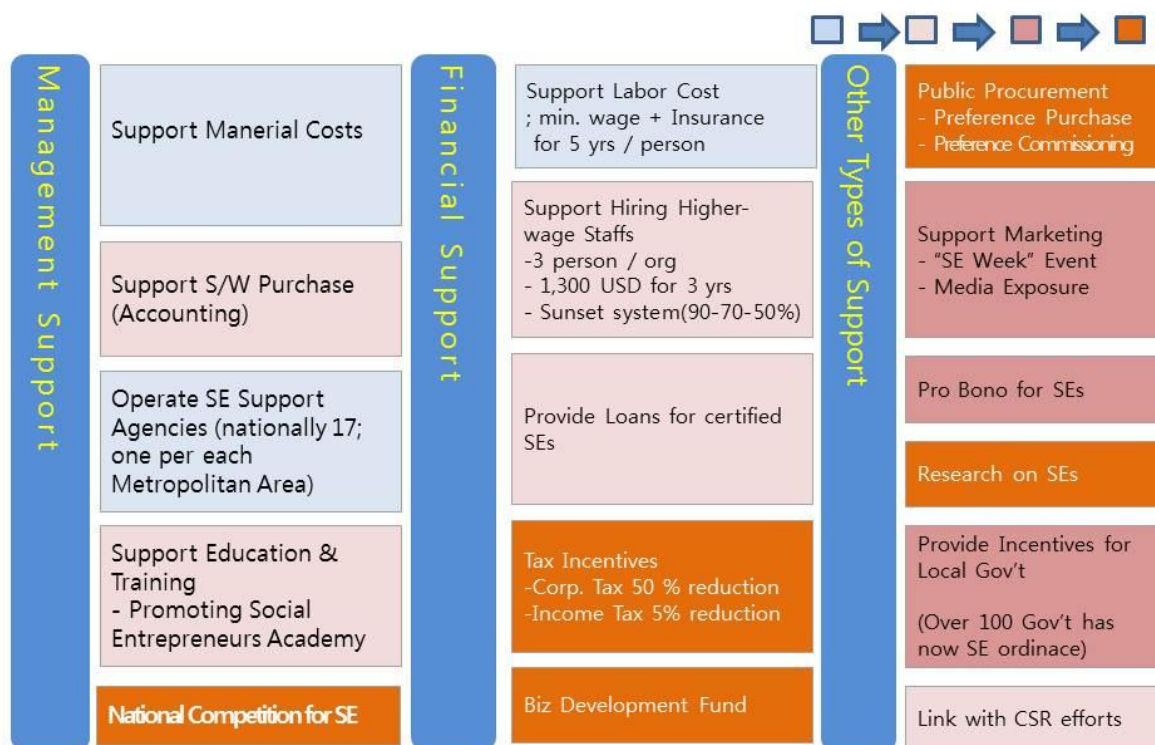
Business Category	No Limit (Except for Finance and Insurance Industry)	More than 40% of business should be in public projects. - Community regeneration, residents rights - Offering jobs for the socio-economically vulnerable groups, - Commissioning from national or municipal government - Other projects of public interest
Amount of Statutory Reserve	More than 10% of Profit	More than 30% of Profit
Allocation	Possible	Impossible
Liquidation	The remaining assets will be liquidated according to the Articles of Incorporation	Non-profit corporation. Treasury attributable

Source : Ministry of Strategy and Finance (2012)

2) Policy Programs for Social Economy

Developing policy programs for Korean social economy has been mainly the role of the central government, especially MOEL. While there have been public policies related to social economic organizations such as consumer cooperatives, it is fair to say that impact of those policies is relatively smaller in scope and scale than the policies for social enterprises by MOEL. MOEL's policy programs can be grouped into three types: management support, financial support, and others. (See Figure 2) Among a variety of programs, subsidy for employment is the most important one. Reducing labor cost for certified social enterprises significantly, employment subsidy has enabled many who are interested in starting a new business with the focus on social value to start their own organizations.

<Figure 2> MOEL's Policy Programs for Social Enterprise



Many social enterprises have taken benefits from MOEL's programs. One example is *noridan*. A social enterprise *noridan* was founded as a self-employment project at Haja Center (Seoul Youth Center for Job Experience) in 2004 with 11 youngsters who had backgrounds in arts and music. After receiving subsidies, *noridan* could grow to hire more than 80 young people. This expansion allowed the company to run more stably and utilize more man-powers in new projects.

■ *noridan, Inc.*

A social enterprise *noridan* was a self-employment project at Haja Center in 2004 with 11 youngsters. Having "Everyone can perform" and "Anything can be a musical instrument" as their first mottos, *noridan* has sought to innovatively combine technology and art in order to provide decent job opportunities for young people. Its business consists of three main parts: providing performance with a variety of

recycled (musical) instruments; giving workshops on performing arts to youth and adolescence; and innovative public design. In 2007, noridan was certified as a social enterprise by MOEL and it has been emphasizing to provide opportunities for the young to “make a living doing what they love” in the field of participatory performance and public space design. *Noridan* now has 86 employees and 2 million USD of gross sales (as of 2010).

Since 2010, policy development and implementation for social economy have been more localized. Regional governments such as Seoul Metropolitan and Chungnam took initiatives in creating a better eco-system for growth of social economy. MOEL’s decided to transfer the implementation of several policy programs such as certification of social enterprises and distribution of subsidy to local governments in 2011, and this resulted in more active engagement of local governments in policy implementation of social economy. Moreover, strong policy initiatives of newly elected political leadership in some metropolitan regions, including Seoul and Chungnam, enabled local governments to plan and implement their own social economy policies. Many municipal governments followed the paths of these leading regions. Therefore, as of the end of 2011, more than 100 municipalities have enacted ordinances to foster social economic organizations and social enterprises. Most of the ordinances are based on Social Enterprise Promotion Act, so the content of the ordinances have practically no difference. Many ordinances list up support of management, procurement, purchase, marketing, etc. for social enterprises. It is clear that the ordinances became the foundation for each local government to set up social economic policy more aggressively, but there is also criticism that the ordinances lack the effectiveness mainly because the ordinances do not include all types of social economic organizations by focusing on social enterprise. The fact that preference for social economic organizations in public purchase is not forced by these bylaws also stirred criticisms that the ordinances have limited impact.

In order to overcome the limitation of the ordinance focused on social enterprise, some local governments created broader institutional system for fostering social economy. A good example is Chungnam, where revised the ordinance for social enterprise to the Ordinance on Fostering Social Economy in 2012. This was one of the first actions to approach more broadly to social economy in policy-making, and other local governments are expect to follow it.

Along with Chungnam's efforts, the case of Seoul is noteworthy to investigate. As a political and economic center of Korea, Seoul is the largest regional economy in Korea. Seoul accounts for about 1/5 of Korean population and about 1/4 of national GDP of Korea (as of 2010). Seoul is also leading Korean social economy, boasting of largest number of social economic organizations among municipalities. As of 2011, Seoul has 136 certified social enterprises and 411 pre-certification social enterprises, 46 percent of whose operate social service business. Social economy of Seoul is estimated to account for 0.04% of regional GDP (GRDP) and 0.1% of total employment in region.¹² In addition, Seoul's budget for social economy is no less than that of central government. Therefore, it needs to look into efforts of Seoul Metropolitan Government (SMG) in order to better grasp the policy for Korean social economy.

SMG has made a great deal of endeavor to promote social enterprise in Seoul. For example, SMG has operated its own certification system of social enterprise and certified more than 411 organizations as social enterprise. This effort results in quantitative growth of Seoul's social economy. The government-led drive for quantitative growth, however, lacked promoting and spreading the principle of social economy – sharing, solidarity, and reciprocity. Thus, many criticized that SMG needs a new direction for real, more qualitative growth of social economy.

After Mr. Won-soon Park took Mayor's office in 2011, paradigm shift has been made. Mr. Park has been a prominent leader in the Korean third sector and working in the field of Korean social economy for a long time. With deep understanding of Korean social economy and political environment, Mr. Park declared that boosting social economy is one of the principal goals of SMG policy. Then he pushed SMG to create a comprehensive plan for fostering social economy in Korea, with the help of a team of social economy experts from both civic sector and academia. Mr. Park also tried to spread this policy agenda by making a number of notable remarks on Seoul's social economy, including declaration of 'the first year of Seoul Social Economy', declaration of 'Cooperative City Seoul', and declaration of 'Seoul the City of Sharing Economy.' Furthermore, SMG set up a new control tower that would take charge of planning and implementing social economy policy programs and let the

¹² This estimation only considered new social economy, including social enterprise, cooperatives, etc.

leading third sector group operate it. This ‘Seoul Social Economy Center’ is expect to reshaping the whole social economy scene not only in Seoul but also in Korea, and to actively realize 10 policy goals for Seoul’s Social Economy (See Table 7 and Figure 3).

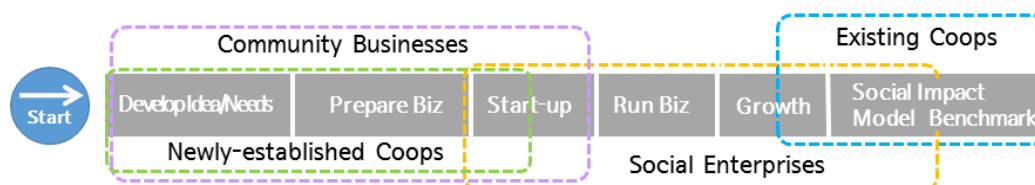
<Table 7> 10 Policy Goals for Seoul Social Economy (2013-2014)

Area	Specific Policy Targets
1. Building Foundation for Social Economy	1) Increasing Access to Public Procurement 2) Building Foundation for Social Finance 3) Fostering Social Entrepreneurship and Human Resources in Social Economy 4) Creating Incubating Spaces such as Incubating Center or Hub 5) Building Regional Infrastructure
2. Incubating and Supporting SE organizations	6) Supporting SE organizations based on their needs and types
3. System and Governance	7) Creating Social-economy-targeted support system 8) Establishing Cooperative Governance
4. Network and Strategical Collaboration	9) Promoting regional/industry network in SE 10) Fulfilling Strategical Collaboration

While new social economy policy has a wide spectrum, designing each program and implementing it is very targeted and focused. A new approach tries to allocate the government resources in more a comprehensive context; that is, they seeks to differentiate the type and the amount of resources based on the development stage of each social economy organization (See Figure 3). Business in early stage gets help for building up their

business model and being market-ready, while social businesses tested in the market gets support for more investment and public purchase from SMG. This customized policy strategy is expected to create a strong business eco-system in Korean social economy.

<Figure 3> Seoul's Customized Social Economy Policy based on Business Stage



Two things should be noted in this trend of localization: first, regional governments have made endeavor to plan and implement policies with the civic sector and the governance structure has become essential in taking policy initiatives. For instance, the above-mentioned Seoul Social Economy Center is a government control tower that plans and implements social economy-related policies, but the operation of this center has been commissioned to Seoul Social Economy Network, a network organization of the experts in this field. The cooperation between local governments and the civic sector is expected to get more strengthened, as the governance has proven to be effective.

Secondly, social economic organizations focusing on local needs began to expand. While MOEL tried to promote 'local-oriented social enterprises', there was clear limitation of utilizing local resources and creating local networks. Some organizations that have a long history of supporting local people survived regardless of the government programs. With localization trend, local governments realized that these organizations could be a powerful drive for regional development in a social economic way, by serving local needs with local resources. Thus, some local governments have tried to have these local social economic organizations participate more in developing and implementing local social economy policies. Two good examples of local-based social economic organizations are Ieum and Wonju Medical Cooperative.

■ *Ieum and Nambu market*

Nambu market in Jeonju, Jeollabuk-do has a long history: it has been a market place for centuries since Chosun Dynasty. After becoming a standing market in 1936, the Market has been one of the largest markets and famous for being a major distribution center of rice in Korea. Growth of Nambu market, however, stopped in the 1980s when newly developed business and residential districts emerged in the suburban areas of Jeonju City. Customers fled the traditional Nambu market to new retail franchises in the new urban centers, preferring more convenient shopping experiences such as enough parking spaces. Big discount stores, which are retail franchises of major corporations, directly competed with Nambu market, and as a result, Nambu market has lost its share in the local retail market and become a symbol of decline of the city's historical center. A local NPO-based social enterprise Ieum, which has been working in the field of urban regeneration and cultural movement since 1986, began a series of projects to revitalize Nambu market by bringing young talents to the area. Young designers did a small-scale renovation – putting graffiti arts on the market buildings' empty spaces and re-designing signboards of each shop. Fifteen young entrepreneurs opened their stores in the market and tried to attract new customers. Most of these efforts were supported by either central government or local government, as enlivening local market to help local merchants was one of key interests of both level of governments. Ieum and its partner organizations in the region have continuously sought to revitalize the traditional market of about 790 shops and help local economy by utilizing diverse government programs.

■ *Wonju Medical Cooperative*

Wonju Medical Cooperative is one of the cooperatives that consist of cooperative networks in the city of Wonju, Gangwon-do, where is often considered as a mecca of Korean cooperative movement. Wonju Medical Cooperative was founded in 2002 with 1,200 members. Main goal of the Cooperative was to provide local people with better, more patient-friendly medical service in order to build healthier community. Although it was not the first medical cooperative in Korea, Wonju Medical

Cooperative is now one of the leading medical cooperatives with 79 employees and two hospitals (one of the hospitals is an oriental medical clinic). The Cooperative also runs a number of related businesses such as training care professionals and operating childcare centers. By providing integrated, preventive medical care, the Cooperative has been helping local people to enjoy comprehensive medical service in the region. It also contributes to local job market, as it has been trying to employ the disadvantaged. Wonju Medical Cooperative is rather a result of strong grassroots initiatives from local practitioners in the field of social economy and is a good example of Korean social cooperatives.

4. Impact of Social Economy Policy in Korea – Issues and Challenges

Korean social economy has achieved notable growth in a relatively short time. Strong policy initiatives taken by the central government have created many new social economic organizations and new employment. For example, since 2008 when the targeted policy programs of MOEL began, more than 13,000 persons have been employed annually by social enterprises. About 70 % of these new employees have secured their employment even after the government subsidy and more than 98% of them have experienced additional work benefits such as pensions. (MOEL, 2012) Given that considerable share of the newly employed are the economically-challenged, few can argue that government-driven policy implementation for social economy had a positive impact on Korean society.

The existing policies, however, resulted in a number of problems. While government's subsidy for employment helped many social economic organizations operate more stably, it also made parts of social economy sector dependent on the financial support from government. Besides, policy programs have limited success on building an 'eco-system' for social economy so far. It is why some criticizes that Korean social economy sector is not sustainable and vulnerable to change of political environment. Since both central and local governments have sought to reduce the direct subsidy to individual organizations, it is clear that the dependence on subsidy of social economic organizations should be drastically decreased in the near future.

Another issue of current policies is the lack of control tower that design policies and implement them in more a comprehensive way. Each ministry of the central governments related to social economy, including MOEL, Ministry of Strategy and Finance (MOSF), and Ministry of Administration and Security (MOAS), have differences in the social economic organizations that they want to focus on. For example, social enterprise is widely accepted as a policy target of MOEL, while MOPF tries to take initiatives on cooperatives. Community businesses are often considered as MOAS's initiatives. This situation created ineffectiveness of policy implementation and inefficiency of government spending related to social economy.

Premature financing system for social economy is also an important problem in Korea. There have been policy programs for creating financial support system for social economic organizations. For instance, MOEL created a socially invested fund of about 4 million US

dollars. Besides, several micro-credit banks were established in Korea with a strong drive of the central government in order to support the economically-challenged people and small businesses including social economic organizations. These programs, however, have been criticized because program implementations have been done in a very limited manner. (i.e. criteria for loan approval of a micro-credit bank in Korea is not much different from commercial banks.) This lack of social financing resulted in more dependence on the financial support from the government.

To deal with all these challenges and problems, the followings are suggested. First, government policy programs aimed at building a social economy eco-system should have more utilize the resources from the civic sector as well as the private sector. Policies for social economy in Korea need to be more customized and localized in order to meet local needs and change the lives of people from the bottom up. For this, planning a policy based on in-depth analysis of local socio-economic environment is essential. Governance structure between the government and the civic sector needs to be strengthened.

A control tower that leads planning and implementation of social economy policies is necessary. Continuous growth of social economy sector is expected in Korea, and coordinating policy efforts more effectively requires more than segmented implementation structure. The establishment of a social economy control tower can assist the governance among sectors and make the distribution of government (and private) resources more effective. In the long run, it is beneficial to create a national government agency. Recently, Seoul Metropolitan Government began to operate a control tower - Seoul Social Economy Center is one example, and the results from this effort will be an indicator.

Policies for promoting social investment and social finance need to be designed better. From the experience of the advanced social economy such as Quebec, it is clear that social economy can be hardly sustainable without healthy financial system. Since financial resources to be allocated have been increased in the field, the evaluation criteria that consider not just financial return but also social values created by social economy organization should be established. It would be also important to foster grass-root movement for social funding

<Appendix: More Examples of Korean Social Economy>

■ *Sungmisan Village*

Sungmisan Village covers an area within a one-kilometer radius around Mt. Sungmi, in Mapo-gu, Seoul. In terms of its administrative district, the community extends over five wards, or dong. It became widely known around 10 years ago when the “Protect Mt. Sungmi” campaign came to be mentioned in media. Now, the village welcomes about 5,000 visitors every year, from all over the nation. In 1994, about 20 dual-income families who couldn’t find suitable childcare decided to join hands to resolve the situation. They all contributed to the opening of a childcare center in Yeonnam-dong, Mapo-gu. This marked the birth of Woori Childcare Center, the first cooperative childcare facility in Korea. The next year, another similar cooperative childcare facility, Nareuneun Childcare Center, was opened in adjacent Seogyo-dong. When these children entered primary school, an after-school center began operations in 1999.

Sharing this community-minded childcare philosophy of “raising our children together,” ever more people boldly relocated to the foot of Mt. Sungmi in order to access these unique childcare centers. Thanks to the children, the parents developed tight-knit relations with each other. To build on the valuable experience gained from operating a childcare cooperative, a consumer cooperative was created in 2001. With the collective purchase of eco-friendly food items, relationships were formed not only among members of the childcare cooperative but also with the local residents. Ten years later, this consumer cooperative has reached annual revenues of 5 billion won and a membership of more than 5,000 households, while serving as the center for a variety of local activities. For example, it supports the formation and operation of various community clubs (for hiking, farming, fighting atopy, singing, and diverse study groups, including instruction on parental roles), in addition to organizing the annual Sungmisan Village Festival, music concerts in the forest, and village field days, and handling other community issues of the village.

Following the consumer cooperative, one or two village-based enterprises have been launched every year, such as Village Kitchen. Enterprises started up by residents

with the ability and desire to work. More than 20 village enterprises are now in operation based on cooperative arrangements. Business funds are raised from residents who invest as much as they can afford, while those with the time and energy oversee the operations. These business ventures also create jobs for the community, employing some 150 residents.

Sungmisan Village is not the name of an administrative district assigned by the government. It's a symbolic name that brings together all the local residents who voluntarily agree to contribute to the greater common good. At this village, you can observe communal autonomy in actual practice.

■ *Local Food Movement in Korea: A Case of Wanju-gun*

Community-supported agriculture, farmers' cooperative markets and other "eat local" projects are recently springing up in Korea, touting the benefits of locally-grown foods amid an influx of imported produce. The consumer movement, in vogue in many Western countries for some years, brings a ray of hope to Korean farmers struggling to survive the rising tide of free trade globalization. For conscientious consumers, it means new alternatives to Western industrial agriculture giants that dominate grocery shelves. The local food movement aims to build a locally based food economy in an era of globalized, industrial food systems, by linking consumers directly to small-scale farmers and food producers in the area. The claimed benefits of eating local produce are far ranging – from freshness, taste and community cohesion, to helping the economy, the environment and even national security.

In Wanju, North Jeolla Province, the nation's first store for local food opened May 2012, with a promise "from farm to shelf in less than a day." Farming communities are landing deals with schools or big corporations in their areas to supply them with their products. In Wanju, a systematic survey of local resources was conducted prior to the project's implementation, and a community business (CB) support center was opened as a joint public-private effort. The first and most used local resources were 'local food', and now Wanju-gun boasts to be a mecca of local food movement in Korea. Wanju has the nation's first local food processing and distribution center, where local produce is checked and packaged by local residents.

■ *Energy Farm, Inc.*

Korea is almost fully dependent on energy production – she has to import gas and other raw material to produce energy. Despite this energy-dependence, renewable energy has been relatively less emphasized in Korea. Energy Farm is a social enterprise that changes this situation. Their focus is to apply appropriate technology to produce and use energy, and create a better energy solution for the less developed regions around the globe. Recently they started to manufacture ‘solar cookers and distribute them in Cambodia. In the center of the anodized-aluminum overturned domes, the residents fried and grilled bananas, sautéed noodles, boiled rice and even heated up old irons. Solar cookers that concentrate the heat powerfully enough to boil water and bake bread, replaced the wood stoves that the locals use. The 20 solar cookers had been manufactured by the Cambodian staff under the guidance of Kim Dae-gyu, the CEO of Energy Farm, a small-size Korean social enterprise focusing on renewable energy.

Products developed under appropriate technology tend to suit the locals’ needs, not what the developed world think they would want, and use locally available raw materials. They are also environmentally-friendly and easy to repair. In the case of the solar cooker, a survey of 97 households carried out earlier this year found that 81.4 percent of them need to boil water and 72.2 percent rely on firewood for cooking. Using solar cooker can prevent pollution and deforestation. This is why Energy Farm has helped more local Cambodians use solar cookers, and their road to save the earth with a better and appropriate energy solution will continue.

■ *EasyMove, Inc*

EasyMove, Inc. aims to achieve the goals of hiring the disable and the elderly who are also the consumers of the assistive mobility devices manufactured and sold by EasyMove and of reinvesting in society the revenues created by the sales of the products. Also, EasyMove plans to get Hyundai Motors Group linked in its efforts in research & development, manufacturing, sales and create a new model of

sustainability for social enterprise by cooperation with major corporations.

Worldwide, there is a US\$100 billion market for assistive products and many governments are offering financial assistance to the disabled and the elderly to help achieve the goal of independent living for them. The market size for assistive products in Korea is about US\$2.5 billion. The Korean government's public assistance expenditure is only about 5% of that of U.S. and 1% of that of Europe. Therefore, the total assistance for the disabled and the elderly in Korea is very limited in terms of governmental assistance. The Korean assistive product market is not yet fully vitalized and depends heavily on the imports, which takes up about 90% of what's out in the market. This kind of market environment puts heavier financial burden on the disabled and the elderly who badly need the assistive products.

EasyMove constantly puts its effort in research, development, and manufacturing better assistive devices made domestically, offering them at a more reasonable price to those who need them. EasyMove also seeks to expand its market and provide its high quality products and services worldwide offered at a very competitive price thus help reduce the cost of government spending on the assistive devices as well as the financial burden for individuals. Also, EasyMove carries out its social mission as a social enterprise by providing job opportunities for the underprivileged. We also plan to have the consumers and the users of our products participate in the process of developing and designing the new products so the products would better respond to user's needs.

EasyMove's innovation is most notable in introducing the discourse of shifting corporations' core value and philosophy from corporate social responsibility deemed as merely one of corporations' many projects to it being the corporations' core value and philosophy by developing a new model of sustainability, building strong social enterprise-corporate partnership. This can help increase the interest level of the world's large capital in social economy and in social enterprise. EasyMove's ultimate goal is to contribute in building more and fair and just society.

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