

Policy Brief

Identifying challenges to knowledge transfer: A case of learning exchange between Seoul and Quebec

May 2018

The social economy in Korea has shown dynamic growth, although it has a shorter history compared to Quebec's. As numerous social economy enterprises have emerged, a stable, sustainable, and simultaneous ecosystem is called on for sound socioeconomic environment, including the empowerment of individual organizations, solidarity among social economy organizations, and the establishment of a supportive social finance ecosystem.

As a second policy brief of C.I.T.I.E.S. knowledge transfer project, this document reviews the current situation concerning social finance in Seoul regarding demand, supply, ecosystem, and policy experiences. This document also identifies issues and suggestions for social finance ecosystem¹ development in Seoul in line with Quebec's experiences. Thus, this document aims to create common ground between Quebec and Seoul for better knowledge transfer based on Seoul's practical needs and concerns.

Demands for Social Finance in Korea's Social Economy Sector

There is not much aggregated data on the comprehensive understanding of the financial demands of different actors in social economy sector yet. The overall trend, however, can be estimated based on the two recently conducted surveys on social economy enterprises: the survey on the financial demands of social economy organizations in Seoul conducted in 2016, and the third survey on cooperatives' actual conditions in 2017.

The Seoul survey on the financial demands of social economy enterprises² was conducted using integrated methods with Internet-based surveys administered to 267 accredited social enterprises, 150 community businesses, and 115 social cooperatives in Seoul, along with focus group interviews with three intermediary organizations operating policy funds and five organizations with financial demands. The survey result, illustrated in figures 1-3, shows that many social economy organizations rely on policy funds and government subsidies, and they financially struggle due to difficulties in using the existing financial system. The respondents expressed expectations that social

Financing Methods

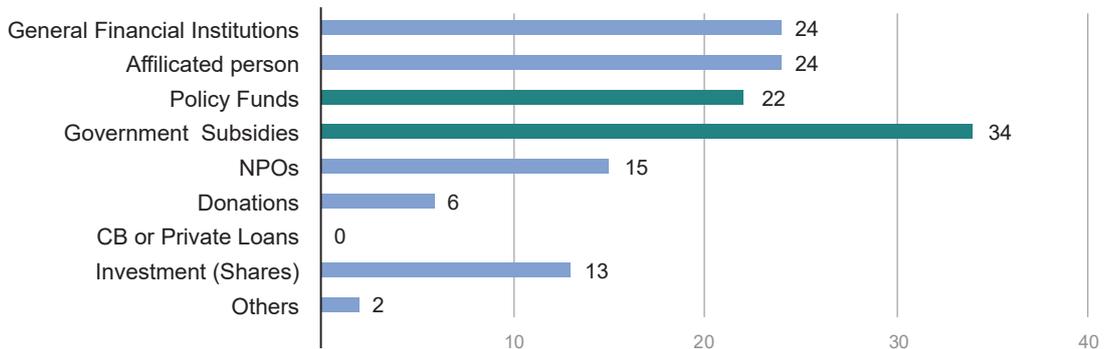


Figure 1. Financing Methods of Seoul Social Economy Enterprises (Source: Kim et al. 2016: 29)

Preferred Lenders

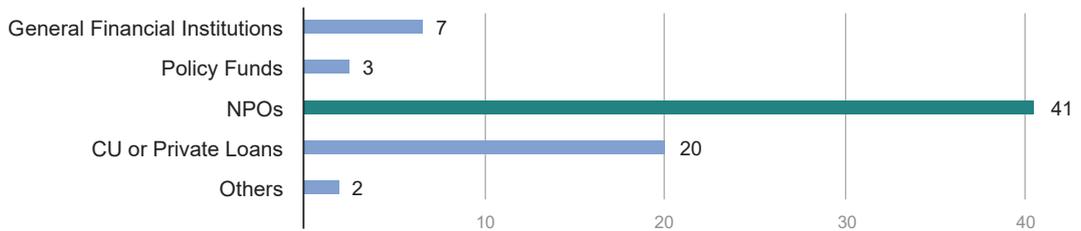


Figure 2. Preferred Lenders of Seoul Social Economy Enterprises (Source: Kim et al. 2016: 17)

Social Finances Should Be Different from General Finances in ...

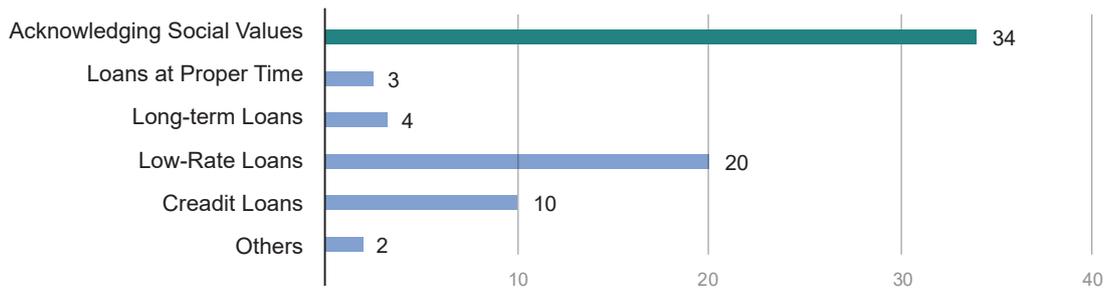


Figure 3. Expectations on social finances of Seoul Social Economy enterprises (Source: Kim et al. 2016: 20)

finances should acknowledge social values of their activities and be patient and easier to access compared to the current financial system. Regarding the amount of funding they need, 32.9% of respondents reported that they need 100 to 500 million KRW (est. 118,200 to 591,000 CAD), and 31.5% of them said 50 to 100 million KRW (est. 59,100 to 118,000 CAD). Of the

respondents, 17.8% answered that they need 10 to 50 million KRW (est. 11,820 to 59,100 CAD), and the percentage of those who needed more than 500 million KRW was 15.1%.

The result of the third survey on cooperatives' actual conditions in 2017³ describes their conditions on a national level. Many cooperatives tend to

1. J. Jang (2012)

2. Y. Kim et al. (2016)

3. Ministry of Strategy and Finance (2018)

rely more on internal financing by increasing investments from members, rather than using general financial instruments. Only 21.1% of cooperatives reported using the existing financial system. From all the respondents, 73.1% reported their financial demands in the upcoming one or two years. The amount of funding they need is less than 300 million KRW (less than 100 million KRW 52.9%, and 100 to 300 million KRW 29.6%).

Definition and Categories of Social Finance Suppliers

As indicated above, the current financial system of Korea is designed and operated in favor of commercial banks and investors. Compared to the number of social economy enterprises operating in Korea, a financial system specified for their activities has not been set up yet; many organizations rely on bank loans for financing. Thus, experts have continuously insisted on the need for a supportive, specified social finance ecosystem⁴. Responding to the financial demand of the social economy sector, various methods for financial support have been established. Most recently, the Korean government announced the Social Finance Activation Plan in February 2018⁵.

Social finance can be defined as “forms of ethical and economic finance which distribute funds to innovative and sustainable attempts which address vulnerable social problems.”⁶ In other words, social finance is understood as pursuing the realization of both social values and financial returns. Broadly understood, social finance can include grants and philanthropy, socially responsible investment (SRI) and social investment, loans and guarantees specified for social economy enterprises and social economic activities prioritizing social values. Currently, Social finance organizations in Korea can be categorized largely into microfinance, impact investing, community finances, and cooperative finances, according to their purposes.⁷ The notion of social finance was introduced in the early 2000s as microcredit institutions such as the Joyful Union and the Social Solidarity Bank were established. Impact investing was considered a more advanced form of social finance investment

based on conventional business values. It has gained attention as some investors started to invest in social economy enterprises which they found of significant social impact, regardless of their government accreditation as “social enterprise.” As localizing and self-reliance became key considerations for social economy and social finance, more focus is on community and cooperative finance, although they are at the embryonic stage regarding fund scale and varieties.

Types of social finance funding sources activated in Seoul can be categorized into policy funds (at the central/local government level), impact investment money, and solidarity funds. At the government level, policy funds at the local and national level take the largest portion of social financing. Social finance at the private level is not as extensive as the government, but an increasing number of investors show interest in impact investment. Civic-level financing is the weakest part of social finance in Seoul and Korea in general.

• Policy Funds (Local Level)

The Seoul Social Investment Fund (SSIF), operated by the Seoul Metropolitan Government since 2013, is a policy fund at the local level that covers the largest portions of impact investment funding for social economy enterprises. As of December 2015, total investments from both policy and private funds totaled 54 billion KRW. Among them, 35.9 billion KRW was managed by the Korea Social Investment Foundation, which operates the Seoul Social Investment Fund (SSIF). The next largest amount of money was managed by a government “fund of funds” through another operating institution. The SSIF was originally designed as a private-public matching fund, but donations from the private sector were inhibited due to central legal constraints on the fund’s management in 2015. Thus, the fund has been managed directly by the Seoul Metropolitan Government since 2017. Along with SSIF, there exist other local policy funds at the district level in Seoul, including Seong-buk District’s Social Investment Fund although it is not actively circulating yet. SIF started from the self-help funds of social innovation enterprises for mutual

4. H. Noh (2015)

5. Finance Committee (2018)

6. J. J. Lee et al (2013)

7. J. J. Moon (2014)

aid. It is Fund (480 million KRW), which is the first policy funds at the district level domestically, Eun-pyeong District's Social Economy Activation Funds (0.3 billion KRW), and Seong-dong District's Cooperative Funds (0.13 billion KRW). Other districts also plan to set up district-level policy funds for the social economy.

• Policy Funds (National Level)

Compared to the local-level financial funds, the Korean government at large has provided more indirect incentives, including policy funds at each ministry level, government credit guarantees, along with supports such as tax reductions and benefits, and a preferential purchasing system for public supplies. At the central government level, a "fund of funds" for small and middle businesses covered the second-largest amount of impact investments in social economy enterprises. More recently, the Korean government announced its plan to create a fund for the social economy tentatively called "Social Value Funds" amounting to 30 billion KRW in the next five years, benchmarking Big Society Capital in the UK. The fund is designed to promote spontaneous participation from the private sector for independence from government, transparency, accountability, and sustainability. The fund is expected to function as a *wholesale financing tool*.

• Private Impact Investment

Representative private impact investing companies include: SK Happiness Foundation, Sopoong, D3 Jubilee, MYSC (Merry Year Social Company), Crevisse Partners, HGI, and Korea Social Investment Foundation (KSIF). These impact investing companies facilitate social financing from private investors. Those six institutions and four operators of government-driven funds, excluding KSIF, which operated SSIF, covered 18 billion KRW investment by the private sector in social economy enterprises. Those private impact investors established the Social Finance Network (SFN) in 2015. Their investment goes to many social ventures and accredited social enterprises more likely to ensure financial returns.

• Self-help Solidarity Funds

The Social Innovation Fund (SIF) by Korea Social Innovation Finance and the Social Enterprises Solidarity Mutual-aid Fund (SEMF) by the Korea Central Council of Social Enterprise Mutual-aid Fund, both established in 2014, function as self-help solidarity funds. Cooperatives in Seoul have also begun to raise money for a self-help fund although it is not actively circulating yet. SIF started from the self-help funds of social innovation enterprises for mutual aid.⁸ It is funded through a mixture of private capital based on member investment and policy funds (SSIF). In addition, SIF aims to lend money based on "trust built on relationships." It lends money to member companies that satisfy certain internal criteria, including investments and recommendations from peer member companies.

SEMF aims to build a safety net for (pre-) accredited social enterprises and its workers based on the spirit of cooperation and self-help. Member (pre-)social enterprises collectively pool money for the fund, and the money is loaned to member companies in financial need to prevent breakdown and to stabilize management. The amount of fund is relatively small (SIF 470 million KRW, SEMF 1,870 million KRW as of September 2016), but their existence is meaningful because of their potential for self-reliance based on cooperation and mutual aid.

• Local-based Financial Intermediaries: Focusing on Credit Unions

Mutual financial institutions, such as credit unions (CU) and community banks, are rooted in financial cooperatives. However, they are often considered to have lost their identities as social economy organizations. Nonetheless, some credit unions have strived to revive their identity as cooperatives through solidary activities with other social economy enterprises, including loans specified for the social economy sector. Among CUs in Seoul, *Bukseoul CU*, *Dongjak CU*, and *Nongol CU* are well-known for their commitment to social finance. In 2016, *Bukseoul CU* loaned 4.4 billion KRW (0.9 billion from SSIF, 3.5 billion on their own), *Dongjak CU* loaned 1.77 billion KRW (1.37 billion from SSIF, 0.4 billion on their

8. Korea Social Innovation Finance (2018) Social Innovation Fund accessed on 31st March, 2018, <http://ksifinance.com/index.php/fund-3/#socialfund>

9. S. Lee (2016)

own), and *Nongol* CU loaned 56 million KRW (all on their own).⁹

Tasks of Social Finance in Seoul and Related Suggestions

Surveys on the financial demands of social economy enterprises and opinions of social finance experts crystallized the tasks for social finance in Korea or, more locally, in Seoul into three points: 1) Supply-demand mismatch and financing supply deficiencies other than policy funds, 2) The empowerment of social finance intermediaries with expertise and networks, and 3) The need for valuation criteria suitable for features of the social economy. Besides these points, ways to vary financing methods should be considered, as many rely on government subsidies and public funds based on loans.

These tasks are also addressed in the recent government Social Finance Plan, although further details should be developed. In terms of supply intensification, institutional incentives for attracting social investors are needed. Along with attracting existing investors to private sectors, efforts to further strengthen the self-help social finance pool are needed. As for the empowerment of social finance intermediaries, it is suggested that existing social finance intermediaries should build solidarity collectives such as those in Quebec. Current intermediaries, including CUs, Social Solidarity Bank, Joyful Union, Korea Social Investment Foundation, and impact investment institutions should co-build and engage in such a solidarity entity so it can function as common ground for cooperation among social finance intermediary institutions. To develop accurate, efficient social valuation criteria, measurements for the development of social economy enterprises are also needed.¹⁰

Given that the volume of policy funds is larger than funds from private sources, another issue to consider in the Korean context is how to create a social finance ecosystem for empowering social finance intermediaries and for creating more efficient, autonomous hybrid financing sources among policy funds and private investments. Recently, grant-matched impact investing

(GMI) and grant-matched fund operation (GMF) is suggested to address this issue.¹¹ GMI is designed to reward the social values created by social economy enterprises and non-profit organizations through subsidies so the return of private investors can be guaranteed. Grant-matched impact investment is considered to induce private investments by decreasing the risks of investing in social economy enterprises, which often have low profitability and possibility for return. This can also be applied to grant-matched fund operation so the risks of return loss can be redeemed with subsidies from local governments based on an evaluation of social values created by social economy enterprises. Building up grassroots, more autonomous, and solidarity-based networks among diverse social economic enterprises would be a key in realizing those suggestions that are at the initiation stage.

10. J. Jang & J. Park (2013)

11. J. Rah et al.(2016)

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CREDITS

Author : Garam Lee

Funding : This research was carried out with support from GSEF association and Seoul metropolitan Government.

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Source when quoted : Lee, Garam (2018). [Policy Brief 2] Identifying challenges to knowledge transfer: A case of learning exchange between Seoul and Quebec. C.I.T.I.E.S - GSEF



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