



OECD Local Economic and Employment Development (LEED)  
Papers 2010/15

Improving Social Inclusion  
at the Local Level Through  
the Social Economy: Report  
for Korea

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<https://dx.doi.org/10.1787/5kg0nvg4bl38-en>

## IMPROVING SOCIAL INCLUSION AT THE LOCAL LEVEL THROUGH THE SOCIAL ECONOMY

### REPORT FOR KOREA

This report has been prepared as part of the *Improving Social Inclusion at the Local Level through the Social Economy* (CFE/LEED (2008)9/REV1) project. A team of OECD experts visited Korea in May 2009 for a five-day study visit, to examine the role, both real and potential, of the social economy, and the support which could be given to the social economy to allow it to fulfil its potential. This report is based significantly on the available statistics and on material gathered from the study visit, as well as research conducted both prior to, and after, the study visit.

The project is being implemented in the framework of the OECD LEED Forum on Social Innovations.

*A report prepared by the Local Economic and Employment Development (LEED) Programme of the Organisation for Economic Co-operation and Development in collaboration with the Ministry of Labour, Korea*

*June 2010*

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The support of the team in Korea who contributed to the project was invaluable, as was the contribution of the representatives of national authorities and representatives of other institutions and agencies who participated in meetings and provided documentation.

The OECD team would also like to acknowledge the significant assistance provided by Eric Bidet.

This document has been produced  
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## INTRODUCTION

This report, prepared by a group of OECD experts, discusses the development and growth of the social economy in Korea. In so doing, it speaks to the current interest in social enterprises as a means to address social exclusion and the relationship of social enterprise to the social economy as it has developed in Korea. The current policy measure adopted by the government, support for social enterprise, is hoped to meet the needs of the disadvantaged in Korea through job creation and the provision of social services. Its capacity to achieve this objective will be examined and recommendations to enhance this capacity made throughout this report.

This report relies on the background report provided to OECD experts prior to their visit to Korea, their own interpretation of five intensive days of site visits, seminars by practitioners, researchers and government representatives and a large public forum on the final day that provided an opportunity to hear the views of the numerous participants who attended this event. As well, the experts have consulted documents provided during their visits by outside experts and/or found on the internet.

The organisers of this programme were the Ministry of Labour with the co-operation of the Work Together Foundation. The numerous site visits and opportunities to engage directly in dialogue with practitioners provided a wide exposure to many issues and challenges. Still, this is a small sample of the many initiatives that currently exist in Korea, even if they represented a variety of sectors of activity and included initiatives outside the capital city, Seoul. This document will not only reflect a synthesis of sources and voices but will situate current initiatives in the policy context. In particular, it will situate these initiatives and others that were not included in the study visit, in the current policy context.

The OECD experts are, however, fully responsible for any errors of fact in this document. The views expressed herein and the recommendations provided at the end of this report are based solely on the opinion of the OECD experts. They do not necessarily reflect all the documents provided in preparation of the study visit, all of the information provided, nor all the views of colleagues with whom the OECD experts met in Korea.

It is important to situate the current priority of the Korean government to promote social enterprise in an historical, international and conceptual context. This report will also place the current focus on social enterprise within the history of the social economy in Korea and in other parts of the world. Such an approach is essential in the view of the OECD team to leverage the positive impact of the social economy in meeting socio-economic objectives in all OECD countries that are now embracing social enterprise as a new business form with the potential to address social exclusion, poverty and long-term unemployment. A glossary of key terms is provided in an appendix, to aid the understanding of the general reader.

In many ways, one can suggest that in today's context, the juridical form of the social economy, historically associated with co-operatives, has been expanded to recognise the economic capacity of non-profit organisations (NPOs) and civil society associations. However, NPOs and associations face institutional barriers in most countries that may prevent the full realisation of their economic potential. These institutional limitations are increasingly recognised as countries adopt new legislation or introduce programmes to reduce these barriers. This is certainly true in the case of the inability of NPOs and associations to raise long term investment capital, for example, because of the absence of an appropriate legal form. These comments are raised in these introductory remarks to place social enterprise in an historical and institutional context, as an organisational innovation, in contrast to the frequent perception of social enterprise as an entirely new phenomenon. The salutary promotion of social enterprise is too often de-contextualised. As such, policy design to support social enterprise frequently ignores the critical links between social enterprise and the social economy, for example. It also ignores the critical need for a *systemic approach* to social enterprise promotion, in contrast to the exclusive support for individual initiatives. In Korea, the history of the social economy provides an important legacy for social enterprise. Bringing these phenomena together will increase policy capacity and considerably reduce the risk of failure for these new social enterprises.

While it is easier today to understand social enterprises as a new organisational form, their macro-social impact is not well articulated. It is not surprising that social enterprise has captured the attention of public policy makers internationally, given both the correspondence of this business model with a commitment in many countries to withdraw government from the provision of public services over the last few decades, along with a growing tendency to adopt more pragmatic approaches to socio-economic development. The social enterprise "model", so to speak, responds to both these impulses. And so, despite the great variability between countries in the developed world and between the developed and developing countries, the support for this new business form that meets both public and private objectives is universal.

As this model evolves, however, the role of government varies in different national contexts. What is referred to as *path dependency* will play a determining role in how social enterprises evolve in different policy regimes (Crouch *et al.*, 2001), even if they are seen as innovative responses to poverty reduction and social exclusion universally. How these enterprises internalise a hybrid mix of public, private and civil society activity will reflect the cultural and institutional context in which they emerge. In other words, social enterprises are less homogeneous than they appear. In countries committed to developing a "new welfare mix" that supports a reconfiguration of government, market and civil society relations rather than a withdrawal of government, for example, the social economy will be distinct from countries that are committed to a market-based approach. The extent of government involvement reflects the orientation of the countries involved. Not surprisingly, an Anglo-American approach argues for a stronger role for the market in the economy and in social service provision. A European and Canadian (Quebec) perspective argues less vigorously for market-led strategies; instead, it explores how the market, government and civil society can draft a new blueprint for the creation and distribution of wealth. Of course, the historical specificities of different countries play an important role in how these new arrangements are articulated.

The question is whether social enterprise is re-embedding the market in civil society through



its engagement to generate social wealth, or if it is contributing to a process of disembedding, as a market-based approach to address societal issues. It is difficult to capture this phenomenon in any homogeneous new welfare mix paradigm that realigns state, market and civil society relations. Not only do national contexts matter, but degrees of marketisation or commercialisation do as well. In countries with strong central governments, a shift in policy orientation favouring the market may paradoxically still be largely controlled by the state. In a country such as Korea today, where adoption of market principles is a priority, this is largely state led, reflecting the historical entrenchment of a political and institutional culture that is shaping the social enterprise policy framework. That said, the influence of experiences elsewhere is present in current policy dialogue.

This report will explore the evolution of this new policy commitment. Again, it is useful in these introductory comments to review how and why policy shifts occur. New policy initiatives respond to a variety of incentives, including the inability of existing policy to meet its objectives or *policy impasse* and/or to the need to re-evaluate policy priorities calling for new *policy design*, to name but a few. This is as true for *problem definition* – the roots of poverty, unemployment, social exclusion – as it is for the proposed policy framework to respond to such difficult and complex challenges. The literature over the last three decades has argued for new approaches to public policy formation. This includes new theories of public administration calling for the “modernisation” of government or for “new public management”, synonymous with less government. But it also includes a different perspective that is addressing the need for a different relationship between government, the private sector and civil society organisations that does not imply disengagement. Frequent reference to “governance” has questioned the primarily top-down decision making models that have characterised post-war welfare states, for example, suggesting that new relationships, based on “connections” and multi-stakeholder dialogue would more effectively serve the public good. There is growing recognition of the need for new, more flexible and horizontal policy environments to enable more effective policy formation, which, in contrast to disengagement, suggests engaging government in new ways. The adoption of a new policy framework to address structural issues of social exclusion, poverty and labour market asymmetries runs the risk of failure if transforming the process of policy design is not also part of this strategy.

The current focus on the social economy and the social enterprise sector internationally to reduce social inequality will only achieve this goal if policy innovation includes new processes of policy design and implementation within government. Efforts to that effect are being put into effect in Korea. For example, an inter-ministerial dialogue is tasked with informing the new social enterprise policy framework. Still, the OECD team learned through its visits, discussions and readings, that the design and implementation of this new policy initiative is highly centralised and located primarily in one ministry, the Ministry of Labour. While the OECD team also witnessed numerous initiatives that are benefiting from this new policy orientation, there remain many shortcomings to the approach adopted that may, in fact, contribute to the fragility of these initiatives rather than to their sustainability and capacity to reach long term objectives of social inclusion, poverty reduction and more effective social service provision. As such, the policy outcomes of a social enterprise policy framework may be compromised. These introductory comments will be developed throughout this report; it is important, however, to situate the analysis that follows.

## **Landscape of the Social Economy**

The population of Korea is approximately 49 million. In 2008, Korea's GDP was USD 947 billion; per capita GDP was approximately USD 28,000 and the annual growth rate was just over 5%, slightly higher than the 4.8% rate of growth over the period 2004-2008. Following a sharp decline of 5.1% in the last quarter of 2008, due to the financial crisis, the economy has rebounded with growth in GDP of 2.6% in the second quarter of 2009.

Despite a resilient economy and a low unemployment rate of 3.2% in 2008, Korea experiences a high rate of poverty at 15%. This anomaly underlies the current interest in social enterprise by government. The growing numbers of poor and disadvantaged people are underserved in Korea. The high rate of poverty persistence requires policy innovation. Moreover, the low unemployment rate does not reflect the large and growing number of precarious, part-time jobs and the number of "discouraged workers" who are exiting the labour force. Like many countries, Korea is also faced with an ageing population and insufficient resources to meet their growing needs for social services. It is estimated that in Korea, it will take only 21 years (2000-2021) for the population over 65 years of age to double, from 7% to 14% (Bidet, 2002). At the moment, Korea's spending on social welfare is 6.1% of GDP, the lowest among OECD countries. To address the growing problem of social exclusion and structurally embedded poverty, Korea must confront not only these realities but the institutional and cultural barriers that need to be lifted to enable government to adequately and effectively respond to the challenges it currently faces.

## **Historical Background of the Social Economy**

Korean scholars have documented the historical roots of the social economy in Korea. This report will summarise some of the key moments in this trajectory so as to situate social enterprise in an historical context. As noted above, an historical context is necessary for policy evolution and innovation that adapts and transforms strategies adopted in the past to the current environment. In many countries throughout the world, civil society – associations, civic movements, co-operatives, the labour movement – carry the legacy of citizen-led approaches and strategies to alleviate poverty and the development of innovative strategies of socio-economic transformation. And, in most of these countries, this has been achieved through enabling policy measures adopted by government.

In Korea, the literature refers to two important moments in the last two decades that underlie the evolution in social policy over the last twenty years. The emergence of the democracy movements in 1987 and the mobilisation of civil society in the post-1997 crisis are at the root of current social policy and civic action to address poverty, unemployment and social exclusion. However, Korea also has a much longer history in the development of what is today referred to as the social economy, the solidarity economy, the economy of mutual care, the intentional economy, to name but a few of the terms used that distinguish a *socially embedded economy* from a market driven economy. This history forms the backdrop for the current interest in social enterprise, community enterprise, social purpose business, that constitute the micro expressions of the larger, societal objectives underlying the social economy and/or its various synonyms. Finally, citizens' movements, associations, and the co-operative and labour movements have contributed to the

contours of the contemporary social economy in Korea, by demonstrating their capacity to design transformative socio-economic initiatives. Their role has been more present throughout history in times of crisis, of course, but their contribution to the creation of wealth and to greater social justice and equity has assured their place in the constellation of institutions that make up contemporary society in most parts of the world.

Indeed, ideological debates often misread the importance of democratic movements and associate them only with opposition rather than as complementary to market and state actors. Such debates too often miss the benefit of a *plural economy* in which the market, the state and the citizens' sector (to capture the different nomenclature) play separate and complementary roles. Today's evolution of the social economy and its micro initiatives, such as individual social enterprises and the many enabling instruments necessary for their emergence, consolidation and growth – financial investment tools, labour market institutions, research, business development and public policy – are of growing interest in the international policy community because of the increasing realisation of the benefits of a plural economy. This, however, requires institutional innovation; it requires embracing and building upon historical experiences and it requires looking outside at international experiences that can be adapted to the specificities of individual countries. Of course, there are now “models” of the social economy and/or the social and solidarity economy that are well known and have demonstrated adaptation capacity. As this report has underscored in the introduction, what is missed by countries that explore these initiatives is the cultural context in which these experiences are grounded. This does not suggest that policy innovation has to be fully customised and cannot benefit from innovations elsewhere; it does suggest, however, that context matters and will often determine the success or failure of policy measures that do not address this carefully.

As in many countries, the social economy in Korea is rooted in the co-operative movement. Despite a history of occupation and a variegated political landscape throughout the 20<sup>th</sup> century, the co-operative movement has maintained an important presence in Korean society, even if it has been itself marked by Korea's historical and political specificities. The question of “path dependency” is especially relevant to this discussion as it also affects *perception* and the *capacity for adoption*. The predominant view in Korea associates the co-operative movement with the large government supported co-operatives with limited autonomy. The development strategy adopted by central government in Korea, also limited the development of an independent private sector. Industrial strategy, for example, included the creation of *chaebols*, placing government at the centre of economic planning and control. While many *chaebols* were and continue to be successful, the control by government remains, despite the current interest to decentralise these large conglomerates and open them up to greater market competition. Likewise, the large agricultural co-operatives were government initiated and dependent on government. A strong presence of the state throughout the post liberation period, has, in many ways, erased the memory of the early co-operatives created in the 1920s that are the legacy for worker and consumer co-operatives in Korea today. These co-operatives are more independent of government.

In Korea, the first consumer co-operatives emerged in 1920. The student movement created the first co-operative association in 1926. It was not until liberation from the Japanese after 1945 that co-operatives re-emerged, but this time as political instruments of government. The first independent credit union was established in the 1960s. Legislation was passed in 1972 enabling

the emergence of additional credit unions. However, these were not fully independent of government either. Consumer and worker co-operatives emerged in the 1990s, spurred by the democratisation movement at the end of the 1980s. This new generation of co-operatives are the roots of the social economy in Korea and became the basis for policy in the 1990s to create self-support assistance centres to guide the development of worker co-operatives.

To complete this short summary one must also note the important role played by Confucianism and the family in Korean society, which has reduced the necessity for many services performed by family members that has also restrained the emergence of a “collective identity”. A philosophy that emphasises duties over rights reinforces the turn to strong government to assist the poor. While it is not the intention of this report to suggest that this poses severe limitations on the evolution of social economy initiatives and the new commitment to social enterprise, the cultural roots of Korea must be taken into account (Bidet, 2002). However, it is certainly true that the central role currently played by government in setting the parameters for emergent social enterprises, conforms to the traditional role played by government in Korean society. The risks in adopting such an approach are high. A top down strategy to develop social enterprise can produce perverse results, unless institutional change accompanies this new policy commitment.

Finally, as in numerous countries around the world, there is an active non-profit sector in Korea made up of many organisations and associations including non-governmental organisations (NGOs), civil society organisations, foundations and civic movement organisations. The classification of the numerous organisations that exist in Korea is blurred in some cases, as, for example, “public interest corporations” that include foundations and corporations. According to the Johns Hopkins Study (Kim and Hwang, 2002), NGO is the most common term used to describe non-profit activity.

As noted above, the period 1987-1997 witnessed a “burst of citizens’ energy” with the emergence of environmental groups, numerous civil organisations and a powerful labour movement. This activity was led by both radical and moderate groups. The more moderate groups collaborated with the government in the 1990s to work towards increasing citizen participation in public debate and democratising the state. It is suggested that the basis for a partnership framework between civil society and government was laid at this time (Kim and Hwang, 2002).

### **Co-operatives Old and New**

It is useful to expand the above general overview somewhat, to better situate the current emphasis on social enterprise and to understand what role the co-operative movement and civil society organisations are playing or might play in its evolution. The question raised is where to locate the social economy in the current policy debate. Co-operatives are considered part of both the “old” and “new” social economy in many parts of the world. In most cases, the old established co-operatives are very large and influential economic actors. In some cases, perhaps too many, the old established co-operative movement is not open to the new social economy and its inclusion of associations and non-profit organisations. This debate has marked the evolution of the social economy in numerous countries and has resulted in an artificial separation between social enterprises that are, by and large, NPOs, NGOs, civic organisations and/or associations and the

co-operative movement. This artificial separation misses the critical need for an inclusive definition of the social economy. In Korea, there is the further distinction between traditional state supported co-operatives and “new” co-operatives that creates divisions and barriers for the development of the social economy. This context is, however, not impermeable. Rather, it calls for *dialogue* and *collaboration* between the old and new co-operatives and those promoting a more inclusive definition of the social economy and social enterprise, as citizen-led democratic initiatives. This requires the *co-construction* of enabling policy measures by government and actors to best reflect the policy needs of the social economy.

### ***The Traditional “Old” Co-operatives***

In Korea, co-operatives in the primary sector (agriculture, fishery, forestry), were created in the 1960s and 1970s by government. Close control by government included naming the president of the national federation until the early 1990s. Agricultural co-operatives dominate these traditional co-operatives and have an important international presence, ranked fourth in the World Global 300 by the International Co-operative Alliance (ICA). Despite their strong link to government, they are members of international umbrella organisations, such as the ICA. The president of the National Agricultural Co-operative Federation is currently an elected member of the board of ICA.

Despite greater independence over the last two decades, the central government continues to closely supervise the activities of these traditional co-operatives, organising the merging of agricultural co-operatives, livestock co-operatives and ginseng co-operatives in 2000, for example, and announcing a “separation plan” to separate banking and non-banking branches of the agricultural co-operatives in 2007. Indeed a particular characteristic of the Korean agricultural co-operatives is their multipurpose or multi-sectoral roles that include marketing and supply on one hand and banking and insurance on the other, a feature that is not common in Western countries. The initial project was to implement the separation by 2017, but the Korean government recently announced (March 2009) its intention to present a finalised version to the Assembly in the third quarter of 2009 of the separation plan, with the objective to complete the separation before 2010. Traditional co-operatives are moving primarily towards banking and insurance activities that have become their major sources of revenues, suggesting that a growing part of their business activity is conducted outside the primary sector with non-members.

### ***The New Co-operatives***

Credit unions (CUs) and community credit co-operatives (CCCs) were established in the 1960s but acquired legal status in the 1980s. Less bureaucratic and state-controlled than the traditional co-operatives, they are engaged in banking primarily to mobilise the private savings of the urban poor and to provide loans for low-income households and small and medium enterprises denied access to loans by traditional banking and financial institutions. Community credit co-operatives have increased their total employment from 21,000 in 1998 to 31,000 in 2007 whereas the credit unions, affected by erratic management that led some to collapse during the 1998 crisis, have decreased their total employment from 13,000 in 1998 to 8,220 in 2006.

The CCCs and CUs may be seen as a *transitional co-operative form* that paved the way for the emergence of new co-operatives. Consumers’ co-operatives in Korea are closer to the

European and Canadian conception of the social economy. Unlike the traditional co-operatives, these new co-operatives were not established by the central state; they are rooted in civil society. They are more independent and participatory. While they do have a specific identity, they remain residual as well (much less developed than their counterparts in Japan and in European countries). Compared to traditional co-operatives, they have very few salaried workers and their membership is still composed mainly of regular members with full voting rights. Consumer co-operatives are found primarily in organic food distribution and health care. Democratic governance and participation of members is more valued here than in traditional co-operatives. The pioneer experience, *Shin-ri* consumers' co-operative, which no longer exists, was created by credit union members in 1979.

Other consumer co-operatives that emerged during this period, federated in 1983 as an informal unregistered organisation that later became a registered non-profit organisation in 1987, under the name of Korea Consumers' Co-operative Federation. This movement played a decisive role in the passage of the Consumers' Co-operative Law in 1998. A number of consumers' co-operative movements originating in farmers' trade unions, feminist movements, environmental movements, universities and schools, etc., have since emerged. Today, there are eight national networks of consumer co-operatives. The most developed among these are the Hansalim Co-operatives (115,000 members), the Womenlink Consumers' Co-operatives (12,000 members), the Dure Co-operatives (35,000 members), the University Co-operatives (58,000 members), the YMCA Consumers' Co-operatives (4,000 members), the Medical Co-operatives (10,000 members), and the iCO-OP (33,000 members) that in December 2008, became the first of these networks to become a member of the ICA. These different networks are commonly called Living Co-operatives or Life Co-operatives. According to a 2007 survey, the eight national networks of consumers' co-operatives comprised 221 co-operative units, approximately 400,000 members (a 20% increase since 2005) and generated KRW (Korean Won) 330 billion in revenue (an increase of 23% since 2005).

### ***Non-Profit Organisations (Including the New Foundations)***

As noted above, the Johns Hopkins national report on the Korean non-profit sector (2002) provides an interesting discussion on the terms used in Korea to refer to the different forms of NPOs. Among NPOs that represent the largest set of organisations, the report distinguishes between foundations (650,000 to 700,000 employees) and NGOs (approximately 150,000 employees). These NGOs can be considered similar to the associative component of the European and Canadian social economy and includes civic movements, community organisations, religious groups, labour unions, culture and arts institutions, and social services providers. All these organisations do not constitute a unified sector and operate under very different laws depending on their juridical form and main field of engagement. However, the report cannot, of course, account for the large number of NGOs that are unregistered in Korea. If a comparison is to be made with social economy experiences elsewhere, especially in Europe and increasingly in Canada (in Quebec, in particular), a distinction to be made in Korea is between those NPOs engaged in service provision (foundations and associative welfare centres) and those engaged mostly in advocacy (civic movements). If the former is closer to the social economy and its role as an economic actor, the latter are actually closer to social economy organisations in terms of values and principles.

In Quebec, there is a distinction made between the social economy and community action (*action communautaire*). While the values are the same for both, and while a large umbrella definition should include both these activities, the separation remains important for several reasons, not least of which is that advocacy organisations focus on fundamental rights, which must be assured in all democracies. These should not be subject to political whim or will or to pressure to participate as market actors. This does not preclude the creation of a trading arm by a social economy organisation, if this is a feasible and useful strategy to generate additional income for organisations. But basic rights are in the public domain; they are the most important public goods that are the responsibility of all elected democracies. This can be realised through a variety of means, including the direct funding of organisations. To complicate this portrait, many of these organisations/associations are referred to as part of the “solidarity economy” to distinguish them from co-operatives, for example. It is important today to take heed of this growing lexicon of terms and concepts, to better understand the objectives of the growing number of organisations included under these headings. This is critical to avoid a homogenisation that can easily overlook the diversity of objectives and the nature of government engagement that is required. In certain sectors of activity, as already noted, recurrent government support (programmes and funding) must be understood as critical. This does not apply in other sectors more able to achieve partial or even full autonomy. A one-size fits all approach does not recognise these important differences.

A recently emerging trend in Korea is softening the opposition between those two segments of the non-profit sector with the appearance of a new type of foundation established to advocate for the poor and socially excluded and initiated by private non-profit organisations or leaders of civic movements, without a direct connection to the government or business sector. Some of these new foundations, such as the Work Together Foundation or the Korean Foundation for Social Investment, have been specifically engaged in the creation of jobs and enterprises launched by and/or for the underprivileged focusing on poverty alleviation and the social inclusion of underprivileged groups. Other prominent actors include the Women Fund established in 2000 to support the development of women’s potential, to assist low-income women and contribute to the financial stability of fragile women’s organisations and the Beautiful Foundation, created in 2001, on the model of the community foundation in the U.S., to financially support civil organisations such as social enterprises. Similar to several financial institutions recently launched in Korea, the Beautiful Foundation also provides micro-credit, especially to low-income single mothers to start their own businesses (most of the initially supported projects were food-related but have diversified into other activities including individual taxis, recycling, car repairs, and postpartum care, among others).

### ***Non-Profit Organisations Engaged In Service Provision***

These NPOs are the most significant in terms of income generation and employment creation and must be distinguished from foundations involved mainly in education (universities) and health care provision (hospitals) or created by large companies as part of their organisational structure (corporate foundations), as well as from associations. The main actors here are welfare centres involved in care delivery to specific categories of persons (elderly, children, disabled). Several studies have shown that although many foundations are registered under a non-profit legal status, many actually earn profits and seek tax exemption. As well, many social welfare centres are enrolled in public assistance schemes and fall under the supervision of local governments that

provide the major part of their resources. Both foundations and social welfare centres, are, therefore hybrid and are not completely separate from the for-profit private or public sectors. In both cases, the democratic principle is not stressed, which is not surprising in the case of foundations that are based on financial capital rather than on membership, but it is more unusual in the case of associations. Another distinctive feature of Korean non-profit organisations engaged in service provision, is the reliance upon limited volunteering. These organisations play an important role in providing services and support to selected categories of recipients, but this role remains very residual in the case of most foundations, is very institutionalised in the case of social welfare centres and in both cases, it is closer to charity than to self-help.

### ***The Civic Movements***

These dynamic civic movements grew out of the democratisation movement in the late 1980s. They embrace a large range of socio-economic and political issues such as the environment, social justice, the struggle against corruption in politics, the construction of the welfare system or the support to small shareholders in big companies. Utilising information and communication technology, civic movements have broadened the scope of citizen participation and information dissemination, and have helped to increase their visibility, policy influence and support. Relying upon a larger membership than the NPOs engaged in the provision of services, they are also more independent from both the state and the private sector, bringing them closer to the social economy, even if they focus on advocacy and their real economic contribution remains very limited. Civic movements have a large membership but limited employment. The most influential civic movements emerged relatively recently. They include Green Korea established in 1991, the Korean Federation for Environmental Movement (KFEM) created in 1993, the Citizen’s Coalition for Economic Justice (CCEJ) established in 1989 and the People’s Solidarity for Participation and Democracy (PSPD) created in 1994. These organisations have numerous members (15,000 members in Green Korea; 45,000 members in KFEM; 35,000 members in CCEJ and 10,000 for PSPD) and 50 to 100 employees. Although they are not really engaged in an entrepreneurial activity, given they have paid employees, an annual budget and certified accounting practices, they could be considered as “social enterprises”. As stated earlier, the naming of these civic movements is less important than the nature of the work they carry out and the relationship they have with government.

**Box 1. Statistics on NGOs in Korea (estimated, 2005)**

**Number of organisations subject to study:**

23,017 entities (5,556 civil organisations and 17,461 other NGOs)

**Principal indexes (estimated)**

*Members of NGOs:* 308,724,729 persons (1 person is a member of 6.2 entities)

*Number of workers:* 142,545 persons

*Budget size:* KRW 13,074 billion

Source: *Hanguk Mingan Danche Chongnam, 2006* (Encyclopaedia of Korean Associations, 2006)



**Table 1. Categories of NGOs: By Field of Specialisation**

|   | <b>Frequency</b> | <b>Percentage (%)</b> |
|---|------------------|-----------------------|
| Civil society                           | 1,257            | 26.0                  |
| Education / research                    | 352              | 7.3                   |
| International solidarity / co-operation | 92               | 1.9                   |
| Workers / farmers / fishermen           | 169              | 3.5                   |
| Culture                                 | 548              | 11.3                  |
| Social services                         | 1,035            | 21.4                  |
| Women                                   | 297              | 6.2                   |
| Religion                                | 28               | 0.6                   |
| Poverty reduction / local autonomy      | 322              | 6.7                   |
| Environment                             | 729              | 15.1                  |
| <b>Total</b>                            | <b>4,829</b>     | <b>100.0</b>          |

Source: *Hanguk Mingan Danche Chongnam, 2006* (Encyclopaedia of Korean Associations, 2006)

Table 2 (below) based on earlier data provides more detail that is useful. Although the number of organisations does not fully correspond in these two tables, the table below provides a portrait of the number of people employed and the percentage of the total budget of non-profit organisations by sector of activity.

**Table 2. Dimensions of the Non-Profit Sector in Korea (%)**

| <b>Title</b>                                    | <b>Civic advocacy</b> | <b>Community organisation</b> | <b>Social services</b> | <b>Environment</b> | <b>Culture</b> |
|---|-----------------------|-------------------------------|------------------------|--------------------|----------------|
| <b>Organisations</b>                            | 1004 (25.5)           | 216 (5.59)                    | 1293 (32.84)           | 409 (10.39)        | 438 (11.13)    |
| <b>Members</b>                                  | 642 (18.4)            | 11 (0.3)                      | 1316 (37.9)            | 148 (4.2)          | 103 (2.9)      |
| <b>Staff</b>                                    | 4835 (18.7)           | 698 (2.7)                     | 15,771 (61.0)          | 1227 (4.7)         | 1123 (4.3)     |
| <b>Budget expenditure (hundred million KRW)</b> | 2795 (14.7)           | 180 (0.9)                     | 7095 (37.5)            | 449 (2.3)          | 6514 (34.4)    |

| <b>Title</b>                                    | <b>Education/ Academy</b> | <b>Religion</b> | <b>Labour</b> | <b>Economy</b> | <b>International</b> | <b>Total</b> |
|---|---------------------------|-----------------|---------------|----------------|----------------------|--------------|
| <b>Organisations</b>                            | 140 (3.56)                | 94 (2.39)       | 295 (7.49)    | 6 (0.15)       | 42 (1.07)            | 3937 (100)   |
| <b>Members</b>                                  | 60 (1.7)                  | 134 (3.8)       | 999 (28.7)    | 34 (0.9)       | 25 (0.7)             | 3472 (100)   |
| <b>Staff</b>                                    | 353 (1.3)                 | 428 (1.6)       | 1278 (4.9)    | 16 (0.06)      | 115 (0.4)            | 25,844 (100) |
| <b>Budget expenditure (hundred million KRW)</b> | 98 (0.5)                  | 96 (0.5)        | 1417 (7.4)    | 10 (0.05)      | 266 (1.4)            | 18,920 (100) |

Source: Won Bong (2007)

## *Social Enterprise*

In this report, social enterprise is included in the family of social economy organisations that have been outlined in the previous sections. While this may not necessarily be part of the ongoing discourse on social enterprise in Korea, as already noted, the historical and institutional roots are recognised in many countries, even if the specificities are new in order to correspond with the need for a new organisational form today. It is in this light that this report addresses social enterprise along a social economy continuum. The OECD defines social enterprises as “any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity for bringing innovative solutions to the problems of social exclusion and unemployment” (OECD, 1999).

### **Box 2. The Spread of Social Enterprises to All Parts of Europe in Recent Years**

In Europe the legal form taken by alternative providers of social services, including work integration services, varies, quite naturally, with the national legal framework. It may favour co-operatives in one country, associations in another, NPOs in a third or various types of companies in a fourth. The concept of social enterprise will be employed here to cover all types of alternative providers with clear social goals, in correspondence with the EMES definition of social enterprise.

#### *Social enterprises providing social services:*

Social enterprises providing social services is a fast growing phenomenon throughout Europe. A significant number of social enterprises have been established in several EU countries to provide new social services or to respond to groups of people with needs not recognised by public authorities or excluded from public benefits. Many of the activities were independently started by groups of citizens, with little or no public support initially. After some years the state or local authorities acknowledged them to be of public interest and decided to finance them, partially or totally.

#### *Work integration social enterprises:*

Work integration social enterprises were originally tools of active labour-market policies for workers experiencing serious difficulties in the labour market or at risk of social exclusion. These kinds of social enterprises can be found in most European countries today. They differ from sheltered employment workshops in two respects. First, they pay attention to market dynamics and second they pursue objectives of ensuring that employed disadvantaged persons earn an income comparable with that of other workers (Nyssens, 2006). Sheltered employment has less modest goals. It simply aims at starting job initiatives within a protected market, but without providing market salaries. Social enterprises, by contrast, promote the integration of disadvantaged workers through paid productive activity and they provide tailored follow-up or follow-through training on the job.

#### *Social enterprises supplying goods and services of general interest:*

In recent years social enterprises have spread to new fields of interest for the community. They include services of general interest, like transportation, micro-credit, water supply, cultural development, recreation, fair trade, management of protected sites, social housing and environmental activities. These trends tend to undermine the traditional division between co-operatives and associations or NPOs, as well as erode divisions between single models and multi-stakeholder models of governance. Social enterprises adapting the co-operative formula can now be found in countries including France, Poland, Portugal and Spain.

The EMES (a European research network focusing on the third sector) definition of social enterprise, which has been very influential within Europe and beyond, comprises a criteria of

economic and social dimensions of enterprises. Four factors have been applied to define the economic and entrepreneurial nature of the initiatives: a continuous activity producing goods and/or selling services; a high degree of autonomy (versus dependency); a significant level of economic risk; and, a minimum amount of paid work. Five factors have been selected for the social dimensions of the initiatives: an initiative launched by a group of citizens; a decision-making power not based on capital ownership; a participatory nature, which involves the persons affected by the activity; a limited profit distribution; and, an explicit aim to benefit the community. The EMES definition has clearly informed the Korean legislation that argues that social enterprises are third sector organisations with enterprise characteristics (trading in the market or contracting, employing people, and generating income) combined with social goals and processes (participation, user involvement, community benefit). Several European authors apply the term “social enterprise” to refer to autonomous private organisations providing goods or services that exclusively serve the public interest. Given their non-profit distribution constraint, social enterprises are obliged to invest all or at least a significant part of their profits in the enterprise and they tend to involve various types of stakeholders in their governing bodies. A distinction is often made between social enterprises providing work integration services (WISE) and those delivering a broad range of social services (OECD, 1999; Nyssens, 2006). In some countries (*e.g.* Italy) there is a clear distinction between these two forms of enterprises, while, in others, work integration and social service delivery tend to overlap (*e.g.* Portugal). In yet other countries, emphasis is given exclusively to work integration, such as in Finland and Poland (Galera, 2009). The Italian experience, outlined in Box 3, confirms that a distinction between these types of activities has contributed to the success of social enterprises, particularly when established as social co-operatives. They provide services both in the form of work integration social enterprises (type-B social co-operatives) and social enterprises delivering general interest services (type-A social co-operatives).

### **Box 3. The Italian Law 381 on Social Co-operatives from 1991**

The 1991 Italian Law 381 on Social Co-operatives does not merely recognise a new form of co-operative; rather it acknowledges a new form of enterprise that is specifically designed to “pursue the interest of the community in the human promotion and social integration of citizens”. More specifically, the law recognised not just one, but two different types of social co-operatives, depending on whether they provide general social welfare and educational services (known as type-A social service co-operatives) or undertake other agricultural, manufacturing or commercial activities, with the goal of promoting the work integration of disadvantaged workers (known as type-B social co-operatives).

Both types of social co-operatives have a clear entrepreneurial nature, although the former can only provide social services, while the latter must focus on the occupational integration of disadvantaged workers, who must constitute at least 30% of their employees. The main characteristics demonstrated by Italian social co-ops are their explicit commitment to the community, the involvement of various types of stakeholders, including volunteers, and the legal requirement to use a social audit for type-B social co-operatives. Since 1991 they have spread rapidly, with an annual increase of between 10 and 20%. The new Law 318/1991 and the subsequent spread of social co-operatives appear to encourage other types of third sector organisations to develop their own entrepreneurial activities.

Legislation on social enterprises (also referred to as social purpose businesses) already exists in several countries (Belgium, 1996; Finland, 2004; Italy, 2005; U.K., 2005; Korea, 2006). This legislation embodies hybrid legal forms, blurring boundaries between traditional social economy enterprises and non-profit organisations, as noted earlier in this report. The legislation indicates an

increased recognition of social enterprises as a *brand*. That said, the variability in the laws adopted in different countries still suggests that this is not a clearly defined and homogeneous legal form. For example, in Sweden, the legal form “Firm with Limited Profit Distribution” adopted in 2006 has attracted little interest. It is only in the U.K. and in Italy (the social co-operative) where this new form is popular. In fact, in many countries, social enterprises use the most flexible legal form available for the social economy, according to national preferences. Many countries have adapted their legislation on co-operatives to reflect new multi-stakeholder structures. In others, such as Belgium, the non-profit form is applied (Spear, 2009). The importance of new legislation does arise if private enterprises, pursuing socio-economic or triple bottom line objectives (environment, social, economic) are considered social enterprises. In this case, the question of legal form or regulation is necessary to limit the distribution of profit and preserve social ownership of the assets. This issue will be addressed in the context of policy innovation further in this report. It is noted here to point to the increasing need to provide an enabling regulatory environment for social enterprise that includes legal status. Still, there are those who say that one must not exaggerate the need for a new law that is often held up in the legislative process and may result in too narrow a legal interpretation. Many countries are currently grappling with this question as the number of social enterprises increase without a corresponding legal framework. What is worth emphasising is that the legal recognition of social enterprises has contributed to clarify this concept in the countries concerned. This question will be raised again in this report as the need for new legal forms will be addressed in a broader context to enable social enterprises to attract capital investment, for example.

Social enterprise is the most recently developed pole of the Korean social economy and the one that has been the most influenced by recent European experiences of social enterprise and corresponds more closely with the traditional European view of the social economy. This third pole of the Korean social economy developed over the last 15 years to address issues of unemployment and social service provision. Distinct because of its approach and major fields of involvement, this third pole is actually embedded in the two other poles, as many social enterprises operate under the co-operative or non-profit legal status. They have recently been distinguished by new legislation. The Social Enterprise Promotion Act was passed in late 2006 and came into effect on July 1, 2007 (H. Kim, 2009).

### ***Unemployment, social cohesion and the role of social enterprises***

The first response by civil society to unemployment in disadvantaged residential areas came from a few workers co-operatives in construction and clothing industries in the early 1990s. This initiative followed the struggles waged in the 1980s by displaced residents contesting redevelopment of urban areas in Seoul. Compared to the civic movements that were largely spearheaded by a well educated middle-class and were mainly driven by a spirit of charity although they also embraced a concern for self-help, the early social enterprises were more closely linked to popular and disadvantaged classes and governed principally by a commitment to self-help or self-emancipation. They promoted the idea of social enterprises for the poor by the poor. These early experiences inspired the creation of the National Solidarity to Overcome Unemployment or National Movement Committee for Overcoming Unemployment in 1998 (both terms can be found), an alliance of more than 40 civic groups engaged in assisting the poor and underprivileged in the wake of the 1998 economic crisis. This alliance was mostly financed by

private funds from the progressive daily newspaper *Hankyoreh*, the television channel MBC, the progressive trade-union federation Korean Confederation of Trade-Unions (KCTU), and by individuals. Between 1998 and 2002, the National Solidarity to Overcome Unemployment supported 435 projects for 2.25 million unemployed.

The existing social safety net for the poor was inadequate to deal with the mass unemployment brought about by the crisis. Facing rising signs of social dislocation – homelessness, suicide, divorce – the Korean government promoted public works programmes, bringing modest livelihood support to beneficiaries in exchange for their enrolment in temporary jobs. What was already a conception of “self-help” became the *leitmotif* governing Korean work integration policies. This engagement by government was inspired by the initiatives established by civil society and by the intense lobbying by civic movements. From 1999, the Korean government progressively contracted out a growing part of public works to civil society. This is seen as a first example of collaboration between government and civil society in the economic and social field and became the basis for the future development of work integration programmes in Korea.

At the same time, government promoted the creation of socially useful jobs to address unemployment and poverty and the growing demand for new social services to serve the needs of a rapidly ageing population, concern for the environment and the increased demand for childcare to accommodate working families. Government employment policies were therefore oriented towards creating “social jobs”, a term that appeared for the first time on the official public agenda to design socially useful jobs in non-market activity.<sup>1</sup> The pilot programme to create such jobs began in 2003. By 2007, approximately 200,000 people benefited from this programme that contributed to the creation of 12,000 jobs. In 2008, the government provided more than 100,000 social services jobs with an average monthly wage of KRW 1 million, approximately one third the average income of urban workers. In 2009, 126,000 social services jobs were initially planned, but the government increased this amount to 166,000 jobs. There are further plans to increase this number as part of the government plan to invest KRW 4.9 trillion, announced in March of this year.

In a country where the unemployment rate has been below four per cent over most of the last 20 years, the question is whether social inclusion policies are on the top of the government’s agenda. Despite this low unemployment rate, the Korean labour market is characterised by structural weaknesses. As noted earlier, the number of non-salaried jobs – either self employed or unpaid family workers – is high. This accounts for almost one third of total employment<sup>2</sup> and a high proportion of non-regular salaried jobs. These are indicators of both high flexibility in the labour market and low quality jobs. Workers are paid poorly and receive less social benefits and social protection. Measured by daily (less than one month contract) and temporary (less than one year contract) work, the proportion of non-regular salaried workers is more than 45% of all salaried workers and about one third of all workers, in comparison with 24% in the United States, where the labour market is also considered very flexible. Korea has the lowest proportion of regular salaried workers among OECD countries and a labour market that is characterised by a sharp bipolarisation between secure and precarious jobs. After the 1998 Tripartite Agreement between government, labour and business, (amended Labour Standard Act) that allowed massive layoffs, many secure jobs were replaced by daily and temporary jobs and despite a remarkable improvement in recent years (it was 30% in 2000), regular salaried workers still accounted for

only 37% of the active population (salaried and non salaried workers) in 2007.

Certain categories of people with difficult access to the labour market and especially to regular jobs or to the primary labour market are especially affected. This includes those over the age of 50, young university graduates with little previous work experience who face an unemployment rate three times higher than the average rate and women, due to strong gender discrimination on the Korean labour market. This is especially true for women in atypical situations (single mothers, divorced women, ex-prostitutes, migrants women, etc.), the homeless, and more generally all those with social and/or physical disabilities and migrant workers. Together, approximately 60% to 70% of all Korean workers can be considered to be in a situation of job precariousness that can become labour market exclusion and eventually social exclusion, all the more so since the existing social safety net does not provide significant support.

This weakness of both the Korean labour market and welfare protection led to social dislocation following the 1997 crisis. A large number of the poor and unemployed did not get any benefits from the very limited welfare system in place at the time. Welfare schemes have been improved since then, but according to Jones (2005), a third of non-regular workers are still not covered by any worksite-based social insurance system and data provided by the Korean Ministry of Labour show even lower coverage rates. The proportion is especially high for unemployment insurance. Besides the non-salaried workers who are by definition not covered, it is estimated that only 65% of the eligible salaried workers and less than 55% of all wage and salary earners are fully covered. For those who are eligible, the benefits are still very limited both in duration and in amount paid, leaving many Korean workers to rely on the familial solidarity and/or personal savings or face serious financial problems when they become unemployed.

The trend to job substitution and job casualisation observed in Korea in the years following the 1998 crisis, partially disappeared ten years later. Regular workers represented 54% of all salaried workers in 2007, the pre-crisis level. However there remains a dual labour market in Korea. Regular salaried jobs with high salaries and good social benefits still represent a small percentage of total employment, while non-regular salaried and non-salaried jobs that often offer precarious conditions, very limited protection and social benefits, and therefore greater exposure to social exclusion, dominate the labour market. This situation will likely not improve as the Korean government, expecting a large number of irregular workers to lose their jobs because of the economic recession, recently announced its intention to revise the labour code enforced in July 2007 that obliged Korean companies to change the status of workers from irregular to regular after two full years of employment at a single workplace.

The situation for women is deteriorating. While the number of men securing employment fell by 18,000 between November 2008 and May 2009, 762,000 women were unable to find work. Women accounted for 98% of those whose jobs disappeared in this period. This is especially true for women in their 20s and 30s and for those who have not completed their high school education. The decline in employment was felt particularly in small companies and also within temporary employment and self-employment markets, where a large proportion of women work. In contrast to the crisis in 1998 that involved the loss of stable and relatively well-paid jobs, today, this crisis is targeting the most vulnerable women. For labour market policy to address this situation, more gender specific programmes and measures are necessary including the upgrading of social service

work to “decent jobs” (Korean Women’s Workers Association, 2009).

Women’s Employment Enterprise and Training Unit (WEETU) (see Box 4) and Silai for Skills (see Box 5) in the U.K. are examples of social enterprises that provide training, education, job search and employment for women. In the case of Silai for Skills, it also acts as an incubator for women wishing to start their own businesses. In Korea, where unemployment among women is very high and will not be attenuated unless their *capabilities* are addressed, such as providing educational opportunities, this problem will only deepen in a changing economy with an increasingly flexible labour market.

**Box 4. Best Practice: Women's Employment Enterprise and Training Unit (U.K.)**

The Women’s Employment, Enterprise and Training Unit (WEETU) was set up as an independent voluntary agency and a non-profit company in 1987 in Norwich, Norfolk. They help women take charge of their economic futures through their free training courses, support services to find employment and networking contacts. Their services are free of charge to all women living in the Norwich area and they can help with the costs of travel and pre-school childcare as well.

WEETU offers a wide variety of training programmes: Full Circle (designed to help women who are considering self-employment), Pick and Mix (workshops designed to help women improve their job prospects), WEETU Launch Pad (a personal development programme to gain more self-confidence), WEETU skill station (to help gain office IT skills), and WEETU Prelude (a preparatory course to achieve success in any course or training).

Support services for women include free continuous support and networking opportunities via enterprise circles formed by a group of women to provide peer support during start-up and running of their businesses) and peer-lending loans (on the basis of microcredit), networking meetings, The Chronicle (a monthly e-newsletter), outreach centres, and the WEETU business directory (comprising success stories of women they have assisted).

Moreover, WEETU has developed an innovative programme called WEETUworks, a job-shadowing programme designed to help women gain confidence and work experience. It is a good complement to a CV and results in the employer offering to provide a reference. Although the time spent doing job shadowing is not paid, expenses can usually be claimed and the opportunity helps to find future paid employment.

More information at: [www.weetu.org](http://www.weetu.org)



#### **Box 5. Best Practice: Silai for Skills (U.K.)**

Silai for Skills is an established women's training and employment project based in the inner city area of Easton in Bristol, England. Their innovative social enterprise has as its main objective to help build women's skills to later start a business or just to further their education, while increasing self-confidence at the same time. Actually many of their students pursue further goals in education or in the workplace, or move on to self-employment. The positive results gained from their work with women across Bristol have led to their continued permanence for 19 years. Women from all ages, backgrounds, and skill levels are welcome, and to facilitate their diverse origins, Silai for Skills has translated all of their training material information into six of the most commonly used languages in the Bristol area.

In addition, to accommodate the needs of their clients, Silai for Skills offers bilingual tutors and numeracy and literacy support. They can equally provide a free crèche service in the building for parents and their normal courses function from 10am-3pm to fit around school hours, although evening courses are also available. For those seeking further help in finding education and learning opportunities locally, and help with career planning and job applications, they offer information, advice, and guidance services free of charge to all (students and non-students alike).

Concerning their courses, they offer a wide range of practical, specialised courses in fashion and art design (garment construction), home craft skills (general sewing, upholstery, machine knitting), as well as knowledge in essential skills in math and English. They charge for their courses, but at affordable prices (with the help of concessions), so that all students can have access to their services regardless of their financial situation.

A new development for Silai for Skills is an "enterprise unit" in which current and past students can receive counselling and training on setting up a new business, or just to gain greater confidence for later endeavours. Also, each year a number of students desiring to start their own business can set themselves up on their on-site workshop running their business from there for one year while at the same time receiving expert advice from the unit.

More information at: [www.silai.org.uk](http://www.silai.org.uk)

The OECD team had the opportunity to visit the Haja Center, or Youth Factory for Alternative Culture in Seoul and Organisation Yori, one of the social enterprises incubated at the Haja Center. Organisation Yori is an example of a social enterprise addressing unemployment and social exclusion among women. It offers training in cooking for immigrant women, single parents and teenagers to increase their capacity for financial independence. It also offers a convivial and multi-cultural environment to break the isolation faced by many of these women. The organisation has developed a catering service and also operates Harmony Cafeteria, Cafe Geuraeseo. Childcare facilities are provided on the premises. Organisation Yori is expanding its activities to other neighbourhoods in Seoul. This is an example of a successful social enterprise initiative that meets multiple needs – training/education, work for income, childcare services, social inclusion – facing a large population of women in Korea today.

As a consequence of the bipolarisation of the labour market, economic inequality has grown over the past decade and the poverty rate, based upon 50% of the median income, has been increasing as well from approximately 10% in 2002 to almost 15% in 2007, which is lower than in the United States (17%) but much higher than most European countries (OECD, 2008).<sup>3</sup> According to the OECD's *Employment Outlook 2007*, the income gap between the upper and lower 10% of wage-earners in Korea was ranked third largest (after Hungary and the United States) amongst the 20 OECD's member countries (out of the total of 30) for which such data was available. In addition, Korea's income gap has been widening significantly since 1995.

Poverty, social exclusion, structural weaknesses in the Korean labour market and the growing demand for social services, have not been successfully addressed by the market or by the state. The role of social enterprise in Korea over the last decade has been to design a different approach to resolving these deeply embedded issues, involving new actors or new involvements of existing actors as well as new public policy measures. These include the self-sufficiency enterprises (SSE) and self-sufficiency support centres (SSSC)<sup>4</sup>, certified social enterprises, civic movements with an interest in unemployment and poverty issues and, more recently, in social enterprise, consumers' co-operatives and foundations providing financial support and/or expertise and training.

Amongst these, the significant actors are the Work Together Foundation and the Korea Foundation for Social Investment. The former was certified by the Ministry of Labour in 2003, whereas the latter was established in 2007 under the Ministry of Budget and Planning's initiative, but supported financially by the Ministries of Labour and Health and Social Affairs. Both are non-profit organisations but they remain closely monitored by and dependent on government. Their mandates include different forms of support for social enterprises and social jobs: financial support to social enterprises, networking of organisations, promoting social entrepreneurs, organisation of training programmes to strengthen professionalism and management skills, support for community projects, research on social enterprise and the social economy, etc..

#### **Box 6. Corporate Social Responsibility in Korea**

Korea has a distinctive contribution to developing social enterprise through corporate social responsibility in large corporations. Kim Sung-ho, former health and welfare minister, has advocated a "one business-one social enterprise" movement. The huge conglomerate Samsung Group has provided an early (1994) socially oriented conventional company: Mugunghwa Electronics Corporation – producing household appliances in order to create jobs for the disabled. Another example is POSCO's Poswith, established in 2008 to create jobs for disabled people in the Pohang area.

SK Telecom has also been a prominent supporter of social enterprises; in 2005, it announced plans to create 4,000 jobs for the disadvantaged over the following three years through social enterprises (collaborating with other organisations) to distribute packed meals to disadvantaged children and older people. There are now 27 centres distributing packed meals, 19 of which have received Ministry of Labor certification as social enterprises. SK Telecom's support includes management consultancy and online training for the employees of social enterprises.

Source: Interview in *The Korea Herald* ([www.koreaherald.co.kr/NEWKHSITE/data/html\\_dir/2009/03/24/200903240039.asp](http://www.koreaherald.co.kr/NEWKHSITE/data/html_dir/2009/03/24/200903240039.asp))

In order to create access to capital for projects developed by underprivileged groups of citizens, a few financial institutions have also been established, inspired by micro-credit to provide working capital at low interest rates to small enterprises that are not considered eligible for bank loans due to lack of collateral, verifiable credit history or a steady stream of revenue. These include Joyful Union established earlier in 1999 with the support of City Bank and Grameen Bank, the Social Solidarity Bank created in 2002 by university professors, social workers and finance specialists and the Hana Hope Foundation (Hana is the fourth largest Korean bank) created in 2007.

The Social Solidarity Bank is Korea's first non-governmental micro finance institution issuing loans up to USD 20,000. While initial funding came from the private sector in the form of corporate social responsibility (CSR) and personal donations, government has played an increasing role in financing this institution. This role has increased due to the economic crisis and

the decline in private sector support. The greater role of government does not bode well for this sector. While this role is certainly important in the context of the economic crisis, it needs to be seen as temporary for these institutions to become autonomous. This suggests transforming the nature of support by government from providing micro-credit directly, to developing an enabling institutional and legal framework to support the consolidation of micro-credit institutions (6SIX TelePresence Series, “Micro financing, social investment and enterprise in China and around the world”, June 12, 2009). The need for financial tools will be addressed in more detail in this report as well as examples of innovations in finance in other parts of the world. In this section, the report includes one example of another approach to micro finance currently introduced in China. While government clearly plays a central role in China, it is introducing a new regulatory environment to enable partnerships with civil society organisations and financial institutions.

#### **Box 7. Microfinance in China**

Microfinance in China is growing as the government, non-governmental organisations and commercial banks are exploring how they may provide the poor with greater access to credit.

Over the last decade the government of China has promoted the concept of micro finance. Recent policy changes have enabled the emergence and growth of microfinance in China. At the end of 2007, the China Banking Regulatory Commission (CBRC) lowered the threshold for financial institutions to do business in rural areas, permitting investments in village and town level banks, loan institutions, and village co-operatives. These new regulatory measures have resulted in the establishment of 500 micro-finance institutions (MFIs) last year with the expectation of an additional 500 MFIs to emerge in the coming year.

According to a February 2008 Xinhua report, Chinese banks have lent over USD 131 billion in microloans to more than 77 million households, nearly 25% of all rural households.

It is now easier for social enterprises or social organisations to access credit for the first time. This also confirms the recognition by the Chinese government of the potential role played by such organisations/enterprises in providing social services.

Source: 6SIX TelePresence Series (2009)/ *US-China Today* (June, 2009)

### **Embedding Social Enterprise in the Social Economy**

The current focus on social enterprise in Korea does not make the necessary link with the social economy, as is the case in many countries of the world, especially within Europe and the province of Quebec in Canada. Social enterprise is embedded in the social economy. It is a constituent part of the increasingly variegated social economy that is re-embedding economic activity into societal goals and objectives. In Korea, some social enterprises established a network or alliance for the development of social enterprises in 2006 that has mobilised a dozen organisations engaged in the fight against unemployment through the creation of social enterprises. This is the first concerted effort to bring together components of the social economy using the terminology of the social economy in Korea, spearheaded by scholars and activists who have a good knowledge of European experiences of social enterprise and the social economy, an undoubtedly important first step towards a better recognition of the European social economy approach. However, it is still focused mainly on unemployment and the provision of social services and therefore does not have links with civic movements and traditional co-operatives, the former engaged in principally in advocacy, the latter embedded in a state-dependency relation.

There is more complicity with new co-operatives, although only the medical co-operatives, which have been officially acknowledged as social enterprise by the 2007 Social Enterprise Promotion Act, are actually part of this initiative.

The current approach in Korea, even among those now considering themselves part of the social economy, paradoxically reflects a narrow and limited conception of social economy that is actually closer to the American notion of social enterprise and to organisations committed to job creation and social service provision to marginalised people, rather than to the much broader European conception of the social economy in which social enterprise is embedded. That the terminology of social enterprise is now adopted by government following the passage of the Act for the Promotion of Social Enterprise, probably contributes to this limited perception of the social economy and its emphasis on work integration and social service provision. Moreover, the emphasis on generating market revenue and the focus on individual enterprises rather than on the regeneration of communities is also a departure from both the European concepts of social enterprise and the social economy.

Within Europe and Canada, for example, the development of quasi-markets, or contracts for service by government to social enterprises providing public benefit goods and/or services, does not set market performance as the only objective for social enterprises receiving government support. Furthermore, social enterprises are recognised for their contribution to the socio-economic transformation of low income communities. In Korea, the current two year support provided to certified social enterprises is short term and tied largely to wage subsidies for individual enterprises. A short term subsidy may be insufficient to create sustainable jobs for those hired under this programme. The expectation that these social enterprises can create permanent jobs is perhaps unrealistic given the need for these enterprises both to train workers and develop markets for their services at the same time. The current programme runs the risk of creating precarious, temporary employment in enterprises that are themselves fragile without more substantial longer term support. A more co-ordinated approach would facilitate placements of the retrained workers in other organisations. Rather than a “new welfare mix” that characterises the European or Quebec model in Canada, in which the public sector engages with social enterprise in an innovative collaborative institutional arrangement, the strategy currently adopted in Korea strongly emphasises sustainability, in which government support is minimal and social enterprises are obliged to generate sufficient revenue to reinvest in their social purpose. The focus is on *marketising* social services and on *profitability*, to increase the capacity of non-profit organisations/associations to address “social market failure” through trading activities.

In 1996, long before the current interest in social enterprise in the United States, the Roberts Foundation Homeless Economic Development Fund defined social enterprise as a “revenue generating venture founded to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom line” (Alter, 2007). This is primarily an entrepreneurial approach to social problems. While numerous documents published by the Korean Ministry of Labour (Korea Labour Institute) demonstrate a commitment to a European vision, the current policy adopted by the Ministry of Labour, as noted above, seems to reflect an American vision. This is in sharp contrast with the growing mobilisation of civil society and the expressed commitment to embed social enterprise into a larger socio-economic context. This will be discussed in more detail below.

## POLICY ENVIRONMENT

As stated in the introduction to this report, the promotion of social enterprise by the government of Korea to reduce structurally embedded social inequality reflects a policy choice informed by the growing support for social enterprise internationally. As a new policy initiative, it is extremely important that its design is carefully conceived and that its contours are broad and inclusive. In other words, the concern that this commitment by government to social enterprise may not achieve its objectives if its design and implementation are top-down and if its limits do not extend beyond the focus on individual enterprises, must be considered. Experiences in other countries go even further to demonstrate that where social enterprises succeed, they are integrated into local and regional socio-economic transformation strategies and develop in a diversity of sectors, producing both goods and services. What this suggests is the need to carefully monitor this new policy initiative not merely to evaluate its outcomes, but to explore how these outcomes will be better realised, if this policy shift includes a new approach to policy design and implementation. As this policy initiative is in its early phases, the questions raised by the OECD team will hopefully stimulate discussion within government and between government and civil society organisations that spearheaded earlier social enterprise initiatives and remain involved and committed in this current period. As a tentative conclusion, the current approach adopted in Korea will achieve better outcomes if it is more grounded in communities and organisations if it is a *collaborative and inclusive process*, in contrast to the vertical and clientelist approach currently adopted.

The need to decentralise decision making has increasingly been recognised for increased policy effectiveness internationally. Today, this recognition has gone further to consider the creation of *multi-stakeholder intermediaries* to achieve better results. While local authorities are involved in the social enterprise promotion initiative in Korea, this is not institutionalised and seldom involves non-government actors. If, as this report will suggest, the promotion of social enterprise as a strategy for poverty reduction, social service provision and the development of sustainable employment is to succeed, it calls for more than a new policy initiative, welcome as this may be. This report has already suggested the need to integrate social enterprise in the social economy as a first and critical step. This will be raised again in the discussion that follows. But even the social economy cannot be expected to solve problems of structural unemployment, poverty and economic decline alone. For the social economy to be effective and to assure the sustainability of its constituent enterprises – social enterprises – government at all levels has to be engaged as a partner, accompanying social enterprises in various ways that include finance, infrastructure support, enterprise/business skill development, training, and so on.

Many international experiences confirm that government financial engagement, for example, is most effective when it is flexible and long term, depending on the socio-economic realities of regions. Most important is the growing recognition that long term engagement by government does not imply dependency, as is so often suggested. These are investments by government in social and economic transformation of communities whose long term benefits to those individuals and organisations supported will far exceed the immediate costs to government and generate positive externalities as well as fiscal returns. Government must begin to calculate its *social*

*returns on investment* to capture the societal benefits from such engagement. This is more difficult if social enterprise and the social economy are limited to specific functions, such as labour market integration, as opposed to their wider potential in socio-economic development and societal well-being. This is an important debate and must be held. Sharing these concerns with other countries and regions that have had similar experiences is also important. That there are no formulas or recipes is true, but there are best practices and there are those strategies that have been less successful. It has become increasingly clear that policy to promote social enterprise and the social economy is best executed in new institutional spaces or intermediaries, better able to identify the needs of their local communities. This requires *working across boundaries* (Sullivan and Skelcher, 2002). Much as the international experience and literature on social enterprise has been carefully studied by Korean policy makers, researchers and civil society organisations, a similar effort is required to study those policy settings which most effectively realize the policy objectives of the social enterprise programme in Korea today. Policy innovation has to include *collaborative processes of policy design and implementation*. Indeed, this report did raise the need to recognise and respect the role of *path dependency* in proposing new strategies for government. But it is also increasingly clear that institutional culture is more permeable than a strict interpretation of *path dependency* might suggest.

The OECD team was very impressed with the knowledge of social enterprise and social economy experiences in Europe and North America and the variability of institutional contexts by Korean scholars, practitioners and government representatives with whom they met as well as in the literature they consulted. In different countries, researchers are now also documenting the challenges that new forms of *distributed governance in new intermediary institutional settings* are creating for new models of policy design and implementation. Given the difficulty that Korea has faced to address problems of deep poverty, structural unemployment and inadequate social service provision that it now hopes to resolve by promoting social enterprises, the cost of not exploring *a more flexible approach to governance* might limit the capacity of this new policy initiative to achieve its objectives. The cost of not considering the need for institutional innovation will be high.

There is great interest in the evolution of the social economy in Quebec, a useful example of how *institutional innovation* is contributing to the consolidation and growth of social economy enterprises. The Quebec experience is a useful example of a *broad collaborative partnership model* between government and a large and inclusive network of social economy actors. The *Chantier de l'économie sociale*, an intermediary that is at the heart of the development of the social economy movement, is a network of networks of organisations and enterprises in the social economy. The social economy movement in Quebec includes co-operatives and non-profit organisations and associations that produce goods and services in the public interest, what is often referred to today in Korea and in other countries as social enterprises. The *Chantier de l'économie sociale* embodies many of the features increasingly necessary for the development of sustainable social enterprises. This report will make reference to the Quebec experience in a number of contexts relevant for Korea today as it adopts a social enterprise strategy to address many of the same issues. In this section of the report, the report highlights the model of *distributed and flexible governance* adopted by the *Chantier* and its impact on policy innovation as a best practice approach. In addition to the many sectors of activity represented on the Board of Directors of the *Chantier*, this governing body also includes representatives of the large social movements in

Quebec – labour, women, co-operative – as well as local development agencies across the province (quangos), regional poles of the social economy (territorial representation) and academic research institutions. As a network of networks, the *Chantier's* wide representation increases the capacity of its member organisations to work in the broader interest of developing the social economy and its constituent enterprises as well to address the needs of particular sectors as they arise.

**Box 8. The Chantier de l'économie sociale (Québec, Canada)**

In March 1996, a working group on the social economy was created in the context of a Summit on the Economy and Employment, convened by the Government of Québec. This group had six months to evaluate the potential of the social economy to contribute to sustainable employment and economic revitalisation. The innovative and dynamic capacity of the social economy identified by this working group led to the creation of the *Chantier*, with a two year mandate to develop a strategic plan for the social economy, identifying those sectors that could contribute to job creation, economic growth and social well-being. In 1999, the *Chantier* became a non-profit organisation to pursue its development of the social economy independently.

The *Chantier de l'économie sociale* is a network of networks of collective enterprises (co-operative and non-profit), local and regional development institutions/agencies and social movements. It is an example of distributed governance and social innovation. As an intermediary that negotiates with government on behalf of numerous organisations in a diversity of sectors of activity, the *Chantier* participates in the co-construction of public policy with government to enable the development of the social economy in Quebec.

The *many* sectors represented by the *Chantier* include child care, homecare, culture, tourism, media, perinatal centres, training businesses, adapted enterprises that employ the disabled, housing and micro-finance. Sectoral and regional representation confirms the commitment of the *Chantier* to a framework of *distributed governance* that, to be effective, has to engage in dialogue with a *complementary institutional policy space* that can meet both the sectoral and territorial needs of such a broad constellation of enterprises and organisations. Indeed, this does not eliminate specific sectoral concerns that have to be addressed by specific government ministries, for example. But the need for a new institutional setting that enables government to adopt an integrated approach and engage in dialogue across ministries as well, is now recognised in Quebec.

To meet this need, the Government of Quebec passed a National Action Plan for the social economy in November 2008 involving eight ministries. This Plan and its implementation are co-ordinated by the Ministry for Municipal and Regional Affairs and Territory, a ministry that itself transcends sectoral divisions.

### Box 9. Best Practice: Quebec Government Action Plan for Collective Entrepreneurship

In 2008, the Ministry of Municipal and Regional Affairs and Territory (MAMROT) launched an action plan to develop the social economy across the province. This five year plan will provide actors in the social and solidarity economy\* concrete and adapted measures to respond to the needs of communities in a sustainable manner. The following are among the actions proposed by government:

- Annual support of CAD (Canadian Dollars) 650,000 for the *Chantier de l'économie sociale*, representing an increase of approximately 45% in the support given to this network;
- Creation of a fund to promote initiatives in the social economy by committing \$100,000 for knowledge mobilisation on the social economy;
- A fund of CAD 850,000 to support innovative projects in the social economy on the Island of Montreal (urban);
- Modification of the law on associations and non-profit organisations;
- Measures to facilitate the inclusion of youth, aboriginal communities and new immigrants into the social economy; and,
- Support for social and solidarity economy enterprises in the cultural and community media sectors.

To assure the implementation and follow-up of these measures, the Ministry emphasises its commitment to horizontal collaboration and “concertation” between government representatives at all levels and regional and local actors. To achieve this, the government has created an inter-ministerial committee and a technical support group that brings together those engaged in the social economy.

\*These would be referred to as social enterprises in other national/cultural contexts. The difference between Quebec and Korea, however, is that the link between these enterprises and the social economy exists and the new vocabulary of social enterprise is not widely used.

Source: [www.mamrot.gouv.qc.ca/regions/regi\\_econ\\_plan\\_acti.asp](http://www.mamrot.gouv.qc.ca/regions/regi_econ_plan_acti.asp)

The impact of this plan is significant for government, for social enterprises (we are using this term to reflect the common objectives sought, though in Quebec, social economy or collective enterprises are more commonly used) and for communities and regions.

- For government, this represents lower transactions costs, as the needs of social economy enterprises are better understood. The multi-stakeholder distributed governance that defines the institutional architecture of the social economy has translated the benefits of horizontality within the social economy to government, resulting in institutional partnerships and collaboration within the public administration.
- For the enterprises and organisations involved, the democratic and inclusive structure of the *Chantier* has shaped a collective identity that has increased its capacity to negotiate with government.
- For regions or localities, they are not passive recipients of programme documents with criteria developed at a distance. Rather, they contribute to the co-authorship of a policy framework of “*recombinant linkages*” – sub-regional and regional – that today include micro and macroeconomic policies that recognise the social economy, its constituent enterprises and organisations and the need for enabling policy at all levels (Fung and Wright, 2003). The existence of local and regional intermediaries is key to this process.



Finally, for the actors involved, and they are numerous, this has eliminated attitudes of cynicism that often accompany policy initiatives “from above”. For local actors, it has provided opportunities to develop trust (social capital) and to begin the hard work of educating the private sector that is still learning about the social economy and how it may work in collaboration with these enterprises. The unfortunate reality that is found in most parts of the world is that once social enterprises move from the margins to the mainstream, they face accusations of unfair competition from the private sector because of public support for these enterprises. The social purpose or public benefit of these enterprises is still not well understood. For government, however, the internalisation of social costs enabled by social enterprises as well as the numerous positive externalities (social cohesion, societal well-being, environmental benefit) is now well understood. This took time. The challenge is to bring this understanding to the private sector so that it understands its role and place in a *plural economy*.

This Action Plan, adopted by the Government of Quebec, represents the *institutionalisation of the co-construction of public policy*. Moreover, it represents the recognition of the critical need to work across boundaries within government, of the necessity to move from silo approaches to develop more effective social and economic policy. This is an important example for Korea and for other countries that are drafting a new policy framework for social enterprise.

There are other very important examples of policy innovation. In the U.K., for example, the Office of the Third Sector with the mandate for social enterprise is situated in the Cabinet Office of the Prime Minister, confirming its hybrid, cross-sectoral character.

In Canada, an attempt to create a hybrid policy space in 2004 was short-lived due to the loss of the federal election in the following year by the Liberal Party, the architect of this initiative. There are important lessons to be learned from each of the examples.

#### **Box 10. Best Practice: Office of the Third Sector (U.K.)**

Originally the Social Enterprise Unit was located within the Department of Trade and Industry. But partly in recognition of the diverse roles of social enterprise across different ministerial areas, it became part of the Office of the Third Sector (OTS) when it was established in 2006. This is placed within the Cabinet Office, an inter-ministerial body, responsible for improving government, particularly co-ordinating policy across ministries. The first Government strategy for social enterprise was launched in 2002, and independently reviewed in 2006. This led to a Social Enterprise Action Plan with commitments from 12 government departments and bodies – including the Department for Business, Enterprise and Regulatory Reform, the Department of Health, the Department for Children, Schools and Families, as well as the Office of the Third Sector – to promote and support social enterprise. Many of the commitments made still guide government's work on social enterprise today. This Plan applies at a national level, and has the following themes:

- Fostering a culture of social enterprise – by supporting research and developing the evidence base, raising awareness through a variety of measures such as social enterprise ambassadors, education at all levels, and building links with the private sector;
- Ensuring that the right information and advice are available to those running social enterprises by providing specialist and general support for both business and social development at a range of different governmental levels; and, by capacity building within the sector;
- Enabling social enterprises to access appropriate finance – through both specialist funds and improving access to mainstream sources, financial training, and through fiscal measures;
- Enabling social enterprises to work with government – by improving collaboration and partnership at all levels and in a wide variety of ministerial areas; by overcoming barriers to contracting for public service delivery; and, by supporting national level social enterprise representative bodies; and,
- Ensuring delivery – by developing success indicators and continually monitoring performance against this Action Plan.

#### **Box 11. Best Practice: The Compact on Relations between Government and the Voluntary and Community Sector (England)**

It is worth noting the importance of the “compact” in developing good relations between the state and third sector in the England. The “compact” specified the broad outline of an agreement to develop good relations with the third sector; it led to a range of policies aimed at increasing the capacity of the third sector, without losing its distinctive civil society values and practices. The Compact was first introduced in 1998. It provides the framework agreement on how the government and the sector should work together, in order to improve their relationship for mutual advantage and community gain. It is underpinned by codes of good practice on:

- funding and procurement
- consultation and policy appraisal
- ethnic minority voluntary and community organisations
- volunteering
- community groups

The Compact and codes establish a shared vision and principles, together with undertakings for both sides of the relationship. It applies at a range of government levels, and to a range of organisations in the voluntary and community sector. Thus Local Compacts, informed by the Compact and Codes, are local level agreements for partnership working between voluntary and community sector organisations and public sector bodies at the local level. All local authority areas in England have, or are developing, a Local Compact. Progress of the Compact is regularly reviewed, and since 2007, an independent Commission for the Compact has been responsible for overseeing the operation of the Compact. Similar documents have also been developed in Wales, Scotland and Northern Ireland.

The Quebec experience has been supported by enabling policy, but it is rooted in local communities and in local initiatives that have been built by civil society organisations over a long period of time. These initiatives have certainly grown with the support of the Quebec government, but their legacy is embedded in a history of mobilisation and collective action that has won the support and collaboration of government incrementally over the years. Today, the integrated policy framework described above, is the achievement of civil society; in particular, its credibility in developing socio-economic initiatives and its legitimacy as a social partner enable it to work with government.

In tracing the history of civil society organisations in Korea, their many forms and engagements over the last two decades have also resulted in significant social policy initiatives, as this report will outline. The social economy has an even longer history in Korea and is an important partner in this current support for social enterprise. The OECD team had the opportunity to spend much time with the Work Together Foundation (WTF). During the meeting they met members of its team, several representatives of social enterprises in different sectors and from different regions in the country, as well as with representatives of the Social Enterprise Support Committee, and the National Council of Social Enterprises, with whom the WTF collaborates through its many activities.

As well, the seeds for inter-ministerial collaboration exist. The drafting of the Act to Promote Social Enterprise was a collaborative and multi-stakeholder deliberative process. That the responsibility is now with the Minister of Labour limits its capacity to act broadly. It is not surprising that job creation is a priority set for social enterprises in Korea.

The OECD team proposes that the evaluation of the first phase of the social enterprise promotion strategy not be exclusively results-based but that it also considers process. *Process-based evaluation* is often the key to successful policy implementation and yet it is not given the same consideration as “outputs” or “results” based evaluation. A poor results-based evaluation will, no doubt, question the policy measure that supported an unsuccessful initiative. This report suggests that the policy environment and not only the policy measure, be evaluated.

The Work Together Foundation is well placed to act as an inter-sectoral intermediary to collaborate with an inter-ministerial body to better serve the needs of emergent social enterprises in Korea. The structure for an inter-ministerial body exists (although it could be made more independent and more genuinely inter-ministerial). The seeds for a more systemic approach to social enterprise exist. The following section provides an overview of social policy, situating the previous, more prescriptive, discussion within this context.

## **Overview of Institutional Context**

The following synthesis of the welfare policy regime in Korea situates the current focus on social enterprise in the recent history of programmes and policies adopted by the Korean government. Recalling this history is important to reinforce the need to identify institutional barriers that limit the capacity of policy initiatives to meet their objectives.

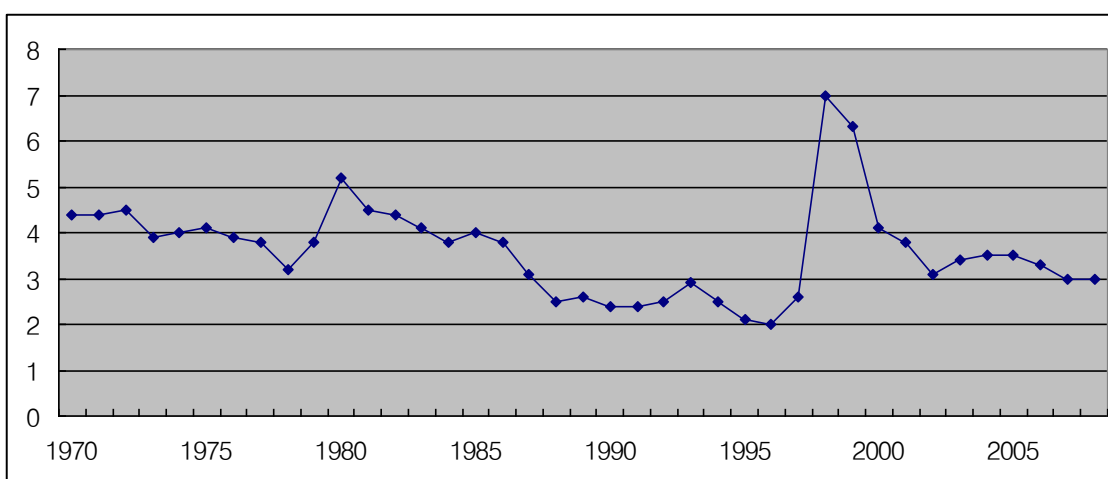
The institutional context of the Korean welfare regime can be characterised as conservative, with low social expenditure, an emphasis on social insurance programmes for full-time workers

and a generally underdeveloped provision of welfare services that is assumed primarily by families and large corporations rather than the state. Since 1999, President Kim developed a “productive welfare” strategy with reforms in labour market policies and social safety nets to support economic efficiency and growth by reducing unemployment and welfare dependency of the unemployed, for example, through the introduction of vocational education programmes and welfare-to-work programmes.

As noted earlier, Korea’s relative poverty rate of 15% in 2007 is high. Poverty reduction policies are the responsibility of the Ministry of Health, Welfare and Family Affairs and implemented by local governments. This high rate of poverty corresponds with a general decline for over ten years in the level of social inclusion in Korea. Social exclusion is also an issue with regard to health and education. Although everyone has access to medical services, 37% of medical expenses were not covered by health care insurance in 2006, higher than other OECD countries. Moreover, government-supported medical benefits reached only 1.83 million people in 2006. As well, 10% of households face excessive medical expenditure. Inequality in education is also a major concern: 20% of secondary education and 78% of higher education is funded privately, one of the highest levels in OECD countries.

The Korean employment rate (64% in 2005 for those aged 15-64) is just below the OECD average of 66%. But this masks some important differences: the male rate is similar to the OECD average at 75% but the employment rate for women is lower (53% due to difficulties returning to work after child rearing) as it is for youth. The very low unemployment rate of 3.2% (2008), relatively low in comparison with other OECD countries, needs to be carefully examined, as noted previously in this report. For example, the growing number of *discouraged workers* has doubled since the mid-1990s (Nam *et al.*, 2005) and large numbers of young graduates drop out of the labour force after graduation (Grubb *et al.*, 2007).

**Figure 1. Unemployment Rate in Korea, 1970-2008**



Source: M. Kim (2009)

Furthermore, according to M. Kim (2009) the real rate of unemployment is 11.6% if it

includes those working less than 18 hours per week, those preparing for a job, and those who have given up looking.

Finally, Korea is the fastest-ageing society in the OECD. And although the wage structure is based on seniority, mandatory retirement is low at 55 for medium/large firms. While some retirees withdraw from the labour market, 75% move into self employment.

### **Labour Market and Employment Insurance Policy**

The presence of a dual labour market in Korea has characterised labour market policy in Korea over the last decade. The large number of part-time, temporary or “non-regular” workers with low wages and benefits has increased from 17% in 2001 to 29% in 2006 – the fastest rate of growth in OECD countries. Women are overrepresented in temporary employment. Moreover, non-regular workers receive relatively less training in Korea, reinforcing this duality. There is a general trend for human capital investment to be much more focused on regular, full-time workers who also subscribe to more stable benefit programmes. For the private sector, flexible labour markets represent advantages associated with lower wages and reduced contributions to social programmes. The growing trend to temporary employment has met with strong opposition from trade unions.

Korea has a low degree of trade union coverage (less than 20%), and Korean trade unions are organised by individual companies, rather than by occupations or industrial sectors; thus their ability to represent the wider labour movement is limited. However, if it could broaden its constituency to include the increasing numbers of temporary and part-time workers, it could play an important representational role, especially given the rise of non-regular employment.

The employment insurance system in Korea that includes unemployment benefits, employment subsidies and vocational training, was introduced in 1995 for workers in establishments with more than 30 employees. Since 1998, it covers all workplaces and now includes non-regular workers, those working less than 15 hours a week. However, in 2005, only 57% of eligible workers were insured and only 27% of those unemployed actually received unemployment benefits at the time. Those who voluntarily leave their jobs are excluded. Thus there appears to be a considerable number of unemployed who are *financially excluded, without a safety net*. Furthermore, of those who do receive benefits, only 22% find a job before their benefits run out. This reflects poorly on the effectiveness of job placement by Public Employment Service (PES) managed by the Ministry of Labour, which offers placements mainly in regular employment, that is, not in non-regular employment due largely to the few PES outlets in the service sector. However, it may also reflect the non-declaration of jobs that appears to be considerable (monthly exits from unemployed status in labour market surveys are several times greater than exit levels from unemployment benefits). Thus many may find jobs in family and friends’ businesses, or become self-employed.

The labour market policy landscape includes several programmes that are summarised in Appendix One.

### ***The Social Enterprise Promotion Act 2006 (in effect July 1, 2007)***

Various CSOs organisations in the anti-poverty movement and self-help organisations formed the “Solidarity for Development of Social Enterprises” (“Solidarity”) that also contributed to the policy debate, but the government has been the major driver of this development. CSOs were more supportive of a co-operative model, which was not widely supported. They advocated support for the disadvantaged and the need for subsidies, while the government, led by the Ministry of Labour (rather than the Ministry of Health and Welfare which had been the main body involved with the self-support initiatives) was more concerned with improving social services and with temporary wage subsidies.

The Social Enterprise Promotion Act came into effect in July 2007. As noted earlier, the development of this legislation was the result of a broad and inter-sectoral dialogue. And the Social Enterprise Support Committee that carries out the certification system to approve social enterprises is also made up of civil servants from various ministries and non-governmental delegates and professionals. However, the 15 members of this committee are appointed by the Ministry of Labour that co-ordinates this entire process. The main criteria for certification are social purpose, participatory decision making, profitability, limited profit distribution (two-thirds of profits distributed for social purposes (for company forms)). A wide range of business activities are eligible including childcare, arts, tourism, sports, nursing, homecare, ecological services, etc.. Some additional financial support is available through reduced corporation taxes, tax breaks for corporate purchases of social enterprise goods/services, long term low interest loans, some capacity building support, and preferential procurement by public bodies.

The main support provided by government is in the form of a wage subsidy. The salary of disadvantaged/underprivileged people employed by these social enterprises is paid for up to two years. The Social Enterprise Promotion Act has resulted in considerable growth of social enterprise, but this growth is currently still primarily driven by government subsidies. And although this Act has transformed the policy landscape in many ways, its potential has been limited by a number of factors that will be discussed in detail later, including the lack of wider policy support from other ministries, especially the Ministry of Health and Social Welfare.

### **Welfare Service Policies**

The Korean system may be described as a residual model, where “the role of the state is highly restricted while the individual, the family, the voluntary sector, and the private market economy become the optimal means of meeting needs and redistributing resources” (Y. Park, 2008). It has one of the lowest levels of public social expenditure of all other OECD countries.

Historically, there has been a strong bias towards social welfare measures for employees of big business and a degree of neglect for all others. Under Kim Dae-Jung, there were several major reforms to extend welfare coverage, partly in response to the economic crisis of the late 1990s. The scale of change is indicated by the growth in public social expenditure from 19.9% to 27.9% of the total government budget between 2002 and 2006. National Health Insurance became universal in 1989, but was made up of a few hundred separate health funds for different groups of workers that were not pooled until 2000. This system covers 97% of the population. For the others, there is a system of publicly funded healthcare for low income groups living below the

poverty line who cannot afford to pay insurance (Matthews and Jung, 2006). Patients can choose between competing private providers (the state provision is small), but they have to share the costs in a fee-for-service system. Currently, patients pay more than 50% of costs (Y. Park, 2008); they also pay for additional non-insured services (higher cost services, meals, private rooms).

The National Pension programme was extended to the whole population in 1999, but in practice many people do not pay contributions and are, therefore, not entitled to benefits. In 2001, only about 20% of temporary workers contributed to pension, health, and employment insurance programmes. Similarly, the “percentages of wage-earning Korean employees covered by social insurance in 2001, for example, were at very low levels: 51.8% for the national pension, 54.3% for national health insurance, and 46.9% for employment insurance” (Lee, 2001 in Y. Park, 2008). Thus the safety net for many is, in practice, non-existent. In addition, the inequitable sharing of the burden of payment for these programmes by employers and wage and salary earners is a growing issue, with many others paying less than they should due to the antiquated tax system (Kwon, 2002).

Thus, tensions in Korean society have been growing due to the inadequacies of the current system and the challenges of an ageing population, increasing participation of women in employment, changing patterns of employment leading to growing inequality and poverty and some periods of severe unemployment. Alongside this, the growth of various social movements and associated civil society organisations has led to increased demands for services and protection of the disadvantaged. Nonetheless, although there has been a shift towards social rights, there are still strong elements of a system of “productive welfare” where social policy can be seen as instrumental for the state’s priority of increasing economic growth and productivity (Kwon, 2002). The family, large corporations and the private/informal markets continue to play key roles.

Traditionally NPOs have provided services based on donations and state subsidies. These are often seen as rather traditional, not very dynamic nor innovative. More recently, there is a growing interest in developing a mixed economy of service provision to meet the growing demand for welfare services and an important part of the policy debate has been whether providers or users should be subsidised. The Korean tradition of fee-for-service provision has led to a preference for user systems of payment and subsidy, with a keen interest in voucher systems whose use is growing in many developed countries. Since the introduction of the voucher programme by the Ministry of Health, Welfare and Family Affairs in 2007, service users have more influence on the type of services they will purchase. Many of these services are delivered by non-profit organisations with subsidies for low income households. This voucher system has increased considerably since 2007 and user purchase in the market with subsidy appears to be a growing theme in social policy.

The growing government interest in voucher systems includes not only vouchers for welfare services, but culture vouchers for the low-income people to gain access to cultural performances, exhibitions and movies, sports vouchers for poor young students to use sports facilities and purchase sportswear or related equipment, and consumption coupons to low-income households to relieve suffering during the economic crisis. However, it is important to signal some issues about the possibility of unintended consequences of voucher systems. A study of the first policy initiative aiming to extend user choice through subsidies in the social service market revealed a

number of such findings. The programme “Care Voucher for the Aged” was introduced in 2007. However, research showed that the policy objectives of user choice and competition did not occur as anticipated. Although in the early stage of the service, user choice was relatively limited, instead of users choosing their provider, the opposite happened – providers were choosing their users. Furthermore, providers formed a “providers co-operation committee” which allocated users equally amongst the providers (Yang, 2009).

The following illustration of a voucher system adopted in Belgium points to the competitive nature of such an approach when it is open to the private, public and social economy sectors. While this is salutary, providing opportunities for users to choose their providers, in the context of a policy measure to promote social inclusion, it has its limits, as pointed out below. If third sector organisations are privileged by such an approach (NPOs, social enterprises), the pressure to compete with the private sector suggests that without sufficient and perhaps increased subsidisation (investment by government) if such organisations/enterprises are employing the disadvantaged, for example, they will not be able to compete in this market. This is matter of policy choice where considerations of demand (users) and supply (organisations/enterprises) require mixed policy measures.

**Box 12. Best Practice: Belgian Voucher System (for Jobs/Proximity Services/Undeclared Work)**

In the field of home care and proximity services, the Belgian federal government initiated, in the early 2000s, a voucher system – Titre Service – which requires that users buy subsidised vouchers from the state and then choose between public, private and social economy providers. The main objectives in this Belgian system are: work integration, proximity services, and addressing informal (undeclared) work (an important issue in Korea). This quasi-market system appears to have formalised the informal economy in homecare, thus reducing benefit fraud and increasing the tax take. Social enterprise can combine this system of public service with work integration. The three Belgian regions have extended the scheme for social enterprise and public bodies to other proximity services but with work integration as a central part of the scheme. The supported activities include gardening, transport for the disadvantaged, home repairs, etc.. Relevant experience in Belgium, gained under the European Social Fund, has been well documented, and shows how service vouchers can work to include long term unemployed and migrants.

The Belgian voucher system has significantly contributed to a very large increase in employment. According to the current employment minister, by 2007, over 87,000 jobs have been created over the past four years through the service voucher system, with 46% of these being previously unemployed, and with 9% economically inactive. The cost was high EUR 745m (but at a lower net cost). State subsidies are twice the value of service user fees (for each one hour voucher, the state pays EUR 13.30 and the users EUR 7.50 – and with a tax deduction the real cost to the user becomes EUR 5.25 – below the level of informal work payment rates in the sector.

In this market public, private, and social enterprise compete. Defourny and Henry (2009) analysed the performance of each, and found that although private enterprise was narrowly efficient, when considering job sustainability and quality (job training and quality of supervision), third sector organisations were the most efficient. However, despite this effectiveness in terms of public policy, third sector organisations were not necessarily able to press this advantage in the market, and only about 10% of the vouchers were spent in the social economy. This may be attributable to the need to market distinctive capabilities to the public. Thus, there may be a public policy dilemma about how to promote the advantageous contribution of the social economy.

***Social Inclusion Policies***

Social inclusion policies have not benefited from coherent and strategic development by the government. There have been various bodies established to address different aspects, such as the Office of Deputy Minister for Management of Social Integration and the Presidential Commission



on Sustainable Development (which has a limited role). A new presidential advisory committee is due to be formed to develop coherent policy across different ministries. Although Korean society is relatively homogeneous, there are some groups that have priority for social inclusion. They include North Korean minorities, Chinese/Asian migrant workers, non-Korean spouses, poor communities, and the families of disabled people. However, the main focus of government policy is to address poverty, improve labour market access, reduce unemployment, and, in particular, to promote the social enterprise strategy to assist the disadvantaged. Disadvantage in the labour market is specified in the relevant legislation and in the policies reviewed above, together with welfare policies.

The old safety net for the disadvantaged is under more and more strain as a result of new patterns of employment and increasing demands from civil society. Changes in policies for disabled people made advances after the Seoul Paralympics in 1988. Subsequent legislation led to a range of policy measures including recognition of the need to support severely disabled people and provide employment subsidies for them, as well as for mildly disabled people; the inclusion of government organisations in the system (previously exempt) and the development of supported employment schemes. Thus, there are two main systems of support: employment promotion to integrate disabled people into the open labour market (under the Ministry of Labour) and sheltered or supported employment for severely disabled people in protected workplaces (under the Ministry of Health and Welfare). The latter operates through Vocational Rehabilitation Facilities. Initially, these were based in residential units run by NGOs for disabled people, but they have since been expanded to offer places to people living at home.

There are four types of Vocational Rehabilitation Facilities depending on capacity of the disabled person to work: sheltered factories, protected work facilities, work activities facilities, and vocational training facilities. The first two also provide job placement in the open labour market. These are sheltered factories that provide employment and pay minimum wages to those with the greatest work capacity and protected work facilities that provide training and work for those with little work capacity. The third type, work activities facilities, provides work activity and daily living training for those with very little work capacity. The fourth, vocational training facilities, provides vocational training for the disabled. However, the budget provided by government is inadequate to meet the needs of these facilities, despite the existence of a procurement policy adopted by both local and central government obliged to allocate a certain proportion of their budgets to purchase products from these facilities (Kim and Davis, 2006).

### ***Social Inclusion – Contribution of the Social Economy***

The objectives of the many components of the social economy – co-operatives, non-profit organisations and associations, etc., are clearly associated with the need to address social inclusion – this is a key objective of the social economy and constituent to its identity. In many countries, social enterprises perform this role by providing services and employment for the disadvantaged. But the social economy is understood more broadly to include the production of both goods and services in the public interest. And so it addresses social inclusion from many perspectives, including employment for the disadvantaged. In Korea, the social enterprise sector is narrowly constructed through a certification system, administered by one Ministry. This not only limits the potential role of social enterprise, but it also obscures the *current* and *potential* role of

the wider social economy, including its role to indirectly contribute to campaigning and advocacy for different disadvantaged groups.

As already noted in this report, the potential of the social economy in Korea to contribute to achieving the goal of social inclusion, interpreted broadly to include job creation for the disadvantaged, the provision of social services not provided by the market nor by government, and the production of goods in collective enterprises committed to *triple-bottom line* objectives, that differentiates these enterprises from the private, for-profit sector is not adequately recognised or supported. The role of the social economy in Korea is undervalued at the moment, especially the benefit of integrating into a wider policy framework to meet the objectives currently associated with a more narrow and exclusive support for social enterprise. For example, the traditional co-operatives, strongly linked to government, have played an important role in the social inclusion of rural groups; however, their record with immigrant labour leaves considerable room for improvement. Emerging co-operative sectors (medical, ethical foods, community, etc.) and the community credit co-operatives are providing much needed financial services. Many medical and community co-operatives also contribute to social inclusion.

The Wonju Medical Co-operative and Hansalim Consumer Co-operative that the OECD team had the opportunity to visit are important examples of the significant role of co-operatives in addressing social inclusion, contributing to the well-being of communities and, in the case of Hansalim, demonstrating competitive economic capacity. Enabling policies will increase their potential to meet the current policy priorities of the government. Moreover, the user-based co-operative model fits well with the Korean orientation towards combined fee payments and subsidies in welfare, health and public services, or the development of quasi-markets for service delivery.

The non-profit sector in Korea also contributes to social inclusion. While it includes hospitals and educational institutions, traditional NPOs are engaged with welfare centres for assisting disadvantaged people and while some are closely linked with state support and not seen as very dynamic, others, that charge fees for service, are closer to the social enterprise model supported by government. Added to this are the many civil society organisations (including those that are informal and unincorporated) and anti-poverty movements that emerged out of the democratisation movement at the end of the 1980s. The number of associations has grown considerably and in 2005; 21% of all adults over the age of 20 were engaged in voluntary activity (Bidet, 2008). In some cases, these initiatives have been institutionalised in progressive foundations that are actively engaged in combating social exclusion. The continuing role of such movement based civil society organisations is essential in sustaining the legitimacy of social inclusion policies and in driving innovation.

The recently formed (June 2008) Korea Social Economy Solidarity network that was established to support the government's social employment programmes (social work programmes), could play a role in representation and policy making for the sector, for example. The need for hybrid and multi-stakeholder intermediaries or networks to act as interlocutors with government brings benefit to social economy actors and to government, reducing transactions costs for government with ready access to information and risk and vulnerability for constituent sectors and organisations. The Quebec experience discussed earlier illustrates the benefits to both

government and actors. The important leadership role of the Work Together Foundation in promoting social enterprise places it in an excellent position to build a larger more inclusive intermediary. Its roots in civil society underlie its current representational role for social enterprise; a network/intermediary that would also include Korea Social Economy Solidarity network would reduce the risk of policy failure considerably and contribute to the sustainability of these initiatives. Forging institutional links between social enterprise and the social economy is critical to the further development of the policy priority of the current government.

However, for these innovative institutional settings to succeed, they must be rooted in communities. This requires mobilisation, popular education and confidence that emergent networks or intermediaries will not lead to institutional isomorphism as these networks and intermediaries develop and risk becoming too distant from communities. The co-ordination of these constituents is the elements of a *systemic approach* that involves many sectors of activity and organisations. Such an institutional setting permits the design of enabling instruments and development tools that are tailored to the needs of these hybrid socio-economic actors. This includes important performance and evaluation tools, a need that has been identified in Korea. It also includes the design of labour market and training tools, business development and increases research capacity by defining research questions. Most important is the increased capacity to propose enabling policy and to work collaboratively with government to *co-construct* new policy initiatives and to modify existing ones to better serve the needs of the social economy and to increase the capacity of social economy enterprises (this term captures the different components that are, in fact, social enterprises).

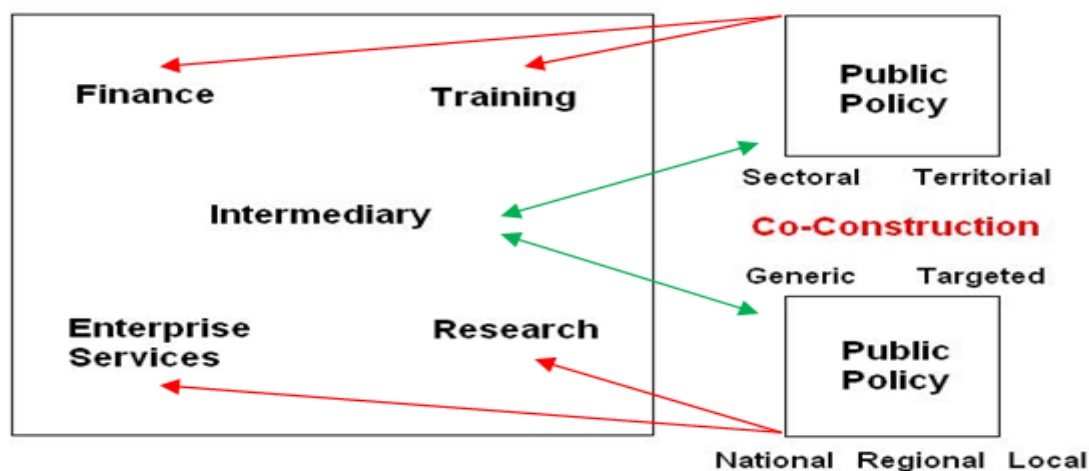
The *co-construction of public policy* is demonstrating positive outcomes in contrast to the limitations of a top-down programme approach. Innovation has to take place on at least three levels:

1. the creation of new *horizontal policy spaces within* government;
2. the development of *multi-sectoral intermediaries* in the social economy; and,
3. *vertical integration* of local, regional and national policy to develop a *coherent policy framework* with appropriate division of responsibility for each level of government.

Effectively, this calls for a dynamic and more circular approach to *governance* engaging all stakeholders in an on-going dialogue to assure *policy effectiveness*.

The following schema combines the processes described into an *integrated system of social innovation*. This is an adaptation of earlier work done by Lévesque (2001) and Mendell (2009) in Quebec as they analysed the evolution of the social economy and the design of enabling tools, including, of course, public policy measures. It demonstrates that once an intermediary is in place with wide representation of social enterprises/social economy, it becomes possible to build a comprehensive and coherent enabling framework. There is no need to repeat the benefit from such coherence. The pre-conditions for this exist in Korea.

Figure 2. Integrated System of Social Innovation



Source: Expanded from Levesque (2001); adapted from Mendell (2009)

Can these trends in the development of integrated systems of social innovation be interpreted as favourable to the social economy in Korea today? If one documents the growing number of initiatives, a few of which are described in this report, the answer is clearly positive. And the new wave of social enterprise certainly contributes to this view. The legacy of the Korean government over several decades to embrace a more European approach to social protection also suggests that modifying the nature of public support for social enterprise at this time, from programme funding to a *deliberative* and *collaborative* approach might correspond with the current openness to new public policy initiatives. A re-examination of the *process* of policy formation and implementation may lead to better results, as this report suggests.

As emphasised earlier in this report, not making the link between social enterprise and the social economy increases the risk associated with adopting the current programme out of context. If the social economy can embrace social enterprise as a new organisational form, as is the case in other parts of the world, this risk is considerably reduced. The reference to the European model of social enterprise and the social economy appears throughout the numerous articles by Korean scholars. Yet, this influence seems less apparent in the adoption of a strategy that challenges social enterprises to become independent market actors in a very short period of time, as has already been pointed out. It appears that the European influence has ceded to a more American approach to social enterprise that emphasises the commercial capacity of enterprises that serve social objectives. Unfortunately, the adoption of such an approach misses the need to develop a wider spectrum that considers the market capacity of social enterprises as an important criterion, but accepts that many such enterprises, because of their contribution to social outcomes, should not be expected to achieve financial autonomy.

A more effective approach to the development of social enterprise requires government to apply a new and different logic to its support for these initiatives. By recognising the diversity of sectors that characterise social enterprise, from the production of goods to the provision of a wide variety of services, it becomes clear that for those enterprises engaged in social service provision of public goods and/or those employing the disabled and/or work integration enterprises, their capacity to perform as profitable market actors is limited by their larger social engagement. Indeed, the services provided by these enterprises are in the public interest and are effectively transforming the nature of welfare provision to a contract for service entered into by government and social enterprises or the social economy, more broadly. In this sense, the government is *investing in the public good* and not subsidising these activities. This logic calls for a different mindset that interprets this relationship as a more efficient model of welfare provision, the “new welfare mix” frequently referred to or the *co-production of public services*, to describe a new and more effective form of service delivery (Pestoff, 2006).

**Box 13. Best Practice: Adapted Enterprises for the Disabled – Two Examples from Quebec**

Two examples from Quebec are valuable for this report as they have existed since the early 1980s and demonstrate how social economy enterprises are in old and new sectors, how they succeed in realising their mission to provide high quality employment for the disabled, and how they have become competitive market actors. This is not to suggest that this is possible in all cases, but it is important to note that providing opportunities for the disabled does not imply working on the margins. There is potential for employing the disabled in sectors with potential for growth. These two examples are also from rural Quebec, from regions that are not close to metropolitan centres, but because of the markets they serve, this is not a constraint. This also demonstrates the need to not fall into the determinist or fatalist trap of dismissing such possibilities in low performing regions. Groupe RCM Inc. was recognised as an adapted enterprise in 1982. Groupe RCM is engaged in recycling of paper and paper products and in sorting of industrial and residential plastic materials. It is a non-profit organisation that both employs disabled persons and contributes to improving the quality of the environment. They currently employ 132 persons, approximately 60% of whom have physical and/or intellectual disabilities. Impressions Alliance, an enterprise adapted for disabled persons was created in 1981. They employ more than 100 individuals, approximately 70 of whom are disabled. Impression Alliance 9000 Inc. specialises in printing and the binding of specialised printed products. They have developed expertise in the production of desk calendars and diaries. They have established a sophisticated order management system that permits personalisation and shipment to thousands of customers. For example, Desjardins Group, part of the first credit co-operative established in Quebec at the beginning of the 20th century, itself orders 6,000 products each year.

This is a useful and important example for several reasons. This social economy enterprise has existed for over 25 years, demonstrating the market success and effectiveness of such initiatives to employ disabled people. This is also an interesting case study as it is located in a remote part of Quebec. By choosing a mail order strategy to promote sales and distribution of its products, the location was not a problem. This provides a useful example of the capacity to generate large markets for goods produced by such enterprises. In this case, the goods are purely utilitarian, this is true.

The focus is on providing high quality employment for the disabled. For the community, Impressions Alliance is an important employer. For the social economy, the purchase of 6,000 products by Group Desjardins, demonstrates how markets for the social economy can and do develop within the social economy itself, between consumers and producers.

The recent development of a portal for the social economy by the *Chantier de l'économie sociale* is contributing to the development of a social economy market by providing extensive information on the numerous providers of goods and services in the social economy across the province of Quebec. Very often, social economy enterprises and organisations are not aware of others from whom they can purchase goods and services. The above examples confirm the capacity of the social economy to address the needs of a target population, produce goods and services, generate markets and contribute to local development of rural communities.

Another innovative example is child care in Quebec, where the contract for service approach adopted by government has yielded excellent parent controlled child care services and a competitive market for goods and services purchased by a large network of day care providers. In Quebec, childcare is at the heart of the social economy. In 1997, the new family policy in Quebec supported the development of a very large network of social economy enterprises providing childcare services.

**Box 14. Best Practice: Day-care in Quebec**

The concept of *Centres de la petite enfance* (early childhood centres) was proposed by the *Chantier de l'économie sociale*, the network of networks that represents the social economy in Quebec, based on an innovative proposal by an existing network of parent-controlled daycare centres. An initial budget of CAD 230 million annually allowed parents to have quality educational daycare at CAD 5 per day, offered by parent controlled non-profit daycare. This policy has evolved and despite the introduction of support for private for-profit daycare by the newly elected Liberal government in 2004, the vast majority of childcare services (200,000 places in 1,000 non-profit early childhood centres) continues to be offered but at CAD 7 per day to parents across Quebec through the social economy. These centres employ 40,000 people, making this network the third largest employer in Quebec. Over 7,000 parents participate on a volunteer basis on the Boards of Directors of these centres. The Quebec government invests over CAD 1.7 million annually in these early childhood centres (Downing and Neamtan, 2005; Mendell and Neamtan, 2009).

This is an important illustration of a strategy to develop child care services in the social economy to address the issues confronting women and families, but it is even more significant, as it represents an *innovative process of policy formation or co-construction of public policy* that has characterised the design of social economy policy in Quebec. But, it must be underscored that this childcare initiative was rooted in civil society and today, these centres remain parent-controlled, even though they are financed primarily by government (approximately 85%). This experience is transferable to other cultural contexts; it is inspirational as well as practical, feasible and effective. As such, it needs to be seen as a best practice model for citizen driven initiatives as the basis to innovate social service provision. As a new institutional arrangement with government, it requires a corresponding new logic of how government and civil society, in this case the social economy, interact.

While these day care centres are heavily state funded and can easily be interpreted as part of the public sector, they are in fact entering a contract, so to speak, with government to provide these child care services. And these centres are democratically run by committees of parents and employees, not by state authorities who recognise the effectiveness of this arrangement that is providing services in the general interest. This represents an important cultural shift for government. It is not easy; nor will every government willingly make this shift. And, there is certainly the larger question of political will. Shifting political tides may threaten to reduce the financial commitment to these social economy day care centres and promote their privatisation, for example. In Quebec their rootedness in civil society and strong support by the public at large, has prevented this from occurring, despite changing governments with different priorities. This detailed case study is included in this document as a best practice model for several reasons.

- These centres were conceived and designed by citizens.

- The policy was *co-designed* or *co-constructed* by citizens and government. This is an important illustration of the effectiveness of collaboration between government and civil society.
- As a significant employer, one needs no justification for the investment by government.

A cost-benefit analysis of this substantial investment by government reveals not only the direct impact on children, their families and those employed, but the significant indirect multiplier effects, not only with respect to job creation and income generation. For example, together these centres purchase significant quantities of goods and services, contributing to the local economy. Most recently, almost 1,000 day care centres that are networked formed a *solidarity co-operative*, *www.william.coop*, a purchasing network that effectively operates as a single buyer of a multitude of goods and services. The benefits are extraordinary in terms of price (economies of scale) and for the larger social economy. To the extent that there are social economy producers of goods and services required by this large day care network, they now have access to an enlarged and co-ordinated consumer market. The spin-offs from this initiative are significant.

This is a good illustration of the importance of looking beyond the direct benefits on individual sectors to the collateral benefits that accrue to other sectors or other social enterprises in the social economy and to the economy at large. And finally, these childcare centres are recognised as centres for early childhood education, employing professional early childhood educators recently certified by the Ministry of Education. This was proposed by a social economy labour market support organisation in collaboration with the day care sector. These early childcare centres provide an enriched educational environment for children with new career possibilities for women and perhaps even some men, since the majority of early childcare educators and workers are women. This example is useful as an illustration of the benefits of an integrated social economy or social enterprise development strategy that captures its comprehensiveness. In summary, the early childcare centres in Quebec are an exemplary best practice for the following reasons:

- provider of new and unmet services
- professionalisation of work previously not requiring higher education
  - positive impact on children
  - positive impact on those employed in the sector
  - new image of day care workers and corresponding salaries to reflect high qualifications
- significant market actor
  - large employer
  - revenue generation

- multiplier effects on the economy
- purchaser of goods and services
  - generates markets for social enterprises
  - potential for further job creation in social economy enterprises
- ethical consumption
  - contributes to changing consumption patterns of families
  - meets triple bottom line objectives as a producer and consumer of goods and services
- contributes to public awareness of the social economy
- serves as a model for:
  - new institutional arrangements with government “new welfare mix”
  - citizens capacity to initiate both social and economic initiatives
  - the social economy more generally

The need to develop markets and/or commercialisation strategies is raised in the many documents consulted by the OECD team. It was also raised in the discussions with practitioners and policy makers during the site visit in Korea. The previous examples are templates for innovative commercialisation strategies that serve the public interest.



## SOCIAL INCLUSION AND SOCIAL ENTERPRISE

### Overview of Social Enterprise Sector

Several issues were raised in the previous section that pertains to the current policy environment that supports social enterprise within the context of active policies in contrast to the passive policies associated with traditional welfare provision. The report situates this policy choice within a larger discussion of how this might achieve better results if it integrates the social economy into this framework and if it re-examines issues of *governance* to assure a better policy outcome.

In the following discussion, the report examines the social enterprises themselves, a cartography of sorts, and the conditions that assure their sustainability or not, as the case may be. To better evaluate social enterprise strategy, a careful consideration of how these enterprises are using and benefiting from public support is also necessary. As will be pointed out below, short term programmes, such as this current government initiative, also include the risk of *free-riders* that benefit from public funding only to pursue their own goals once the term of the subsidy has ended. While this may not be widespread, it is certainly a concern and should be both for those committed to the long term objectives of social enterprises and by citizens concerned with how public funding is allocated.

There are four types of social enterprises in Korea:

- *Type 1*: job creation type for social enterprise providing permanent and temporary jobs for the socially disadvantaged, who should comprise more than 50% of the employees – this requirement will be relaxed to more than 30% until July 2011;
- *Type 2*: social service type which provide more than 50% of their services to the socially disadvantaged, and whose employees comprise more than 50% disadvantaged – this requirement will be relaxed to more than 30% until July 2011;
- *Type 3*: mixed type provides jobs and social service for the disadvantaged, but for this type the employee proportion of the disadvantaged and the proportion of the disadvantaged who receive social should be a minimum of 30% – this requirement will be relaxed to a minimum of 20% until July 2011; and,
- *Type 4*: community social enterprise that provides community services, utilities, environmental, and cultural services for the community but does not have to meet employment requirements.

Socially disadvantaged (or underprivileged) persons are specified by the Social Enterprise Promotion Act as households with income lower than 60% of the national average household

income, senior citizens, persons with disabilities, victims of sex trade and the long-term unemployed. The most prominent beneficiaries are people with disabilities, senior citizens, rural residents, and low income people. The prominence of disabled persons may be due to self-support organisations (from the previous programme) now applying for certification (Park, 2008).

**Table 3. Approved Number of Social Enterprises**

|                                | Applied    | Approved   | Total Numbers of Paid Workers | Average Numbers of Paid Workers |
|--------------------------------|------------|------------|-------------------------------|---------------------------------|
| 2007 (1 <sup>st</sup> quarter) | 113        | 33         | 1820                          | 55.2                            |
| 2007 (2 <sup>nd</sup> quarter) | 53         | 19         | 529                           | 27.8                            |
| 2008 (1 <sup>st</sup> quarter) | 54         | 30         | 831                           | 27.7                            |
| 2008 (2 <sup>nd</sup> quarter) | 46         | 24         | 764                           | 31.8                            |
| 2008 (3 <sup>rd</sup> quarter) | 81         | 48         | 1568                          | 32.7                            |
| 2008 (4 <sup>th</sup> quarter) | 104        | 64         | 1053                          | 16.5                            |
| <b>TOTAL</b>                   | <b>451</b> | <b>218</b> | <b>6565</b>                   | <b>30</b>                       |

Source: Ministry of Labour (2009)<sup>5</sup>

The job creation social enterprise is the dominant type with 41.3%, followed by the mixed type at 28.9%. Community services represent the lowest percentage of 13.5% (with “others” slightly higher). Reasons for non-approval of certification applications are organisational type followed by statutes and rules and business income. This suggests an emphasis on sustainable enterprise that is substantiated by the fact that the “corporation” is the most approved organisational type.

### ***Legislation and Certification System***

An important part of the Social Enterprise Promotion Act is clearly the certification of social enterprises; however, there are a number of issues associated with this certification process. Firstly, it is a strict process to ensure the “brand” is protected, but a common expectation is that government subsidy comes with approved certification. Secondly, there are a number of restrictions on the activities of NPOs in Korea, which is why many social enterprises decide to register as companies or corporations. Finally, if a social enterprise decides to change its registration status after having received government subsidies or corporate donations, it will no longer be a certified social enterprise, but will be able to retain its earlier finance from government subsidies or corporations.

Thus the government, having invested in a social enterprise, and having helped it become viable has no further claim on the assets it has helped to create. Moreover, as many of these social enterprises are registered as companies/corporations prior to certification, this may result in privatisation after the subsidy ends, transforming the objective of the subsidy to create a permanent social enterprise with a continuing mission to support the disadvantaged.

### ***Performance of Social Enterprise***

Although the growth of social enterprise has been impressive, it still only assists 4,388 disadvantaged people (58.5% of 7,500), a very small proportion of the potential for work integration initiatives. Also the system has difficulties associated with certification, sustainability

and effectiveness. As S. Kim (2009) argues “despite the growing importance of social enterprises in providing the socially disadvantaged stable jobs, the government’s efforts to support social enterprises are being confronted with diverse problems in terms of certifying, subsidizing, monitoring, and evaluating social enterprises.” Kim goes on to argue that it is important to be more targeted in selecting beneficiaries for government subsidies and link this to better systems of performance evaluation developed for social enterprise. However there have been other detailed evaluations of social enterprise, not translated into English, such as that of Dr Kwak Sun-wha (Pusan National University) which are reported to offer a more positive perspective, and which should be included in a fuller assessment of performance.

### ***Support Strategies for Social Economy***

There are a number of models of development directly involved with supporting social enterprise, but there is a much wider range of social economy organisations linked to these developments. These include:

a) *NPO initiatives*: As noted above, the Work Together Foundation is an outstanding model for supporting social enterprise (*new foundation model*). It is one of six regional support agencies, and although substantially financed by the government, it is independent and has an excellent range of support services: fundraising for start-ups and micro-credit; building community development networks; supporting social enterprise development; creating an academy for social entrepreneurs; and, an institute for policy research.

Those NPOs whose income is primarily from trading activities are themselves considered social enterprises, but sponsoring or creating their own separate social enterprise(s) is also a common model in many countries. One impressive example in Korea is Beautiful Store, established in 2001 as a non-profit organisation for recycling clothes that has successfully opened 59 stores across the country since. Beautiful Store was linked to The Beautiful Foundation (inspired by U.S. community foundation models), Korea’s first community foundation established in 1999. It has developed a range of supporting initiatives including microcredit, the Gong Gam lawyers group, and the Hope Institute think tank. These help create an environment where corporate social responsibility can be channelled productively towards social enterprise. Beautiful Store is also contributing to *social cohesion* by providing an open space for people to meet as well as a cultural space for local residents. Social cohesion or social capital is often absent in poor communities and a community based organisation such as Beautiful Store offers this important opportunity to break patterns of isolation, so common in low income neighbourhoods. Social inclusion has numerous dimensions, as this report has pointed out. Social isolation does not always disappear with access to employment, however important this is to people’s livelihoods.

b) *Co-operative Initiatives*: Established co-operatives have supported the development of social enterprise. The development of the Wonju Medical Co-operative is an excellent example of collaboration between old and new co-operatives. This initiative included the support of three co-operatives, including Hansalim. The strawberry field model of co-operative development<sup>6</sup> is well known and the organic growth of the Hansalim co-operatives shows how dynamic co-operative growth models can be (Borzaga and Defourny, 2001). Wonju Medical Co-operative raises an important challenge to the current law on consumer co-operatives that restricts services to

members. An amendment to this law is currently under discussion. As a social enterprise, services must be available to all potential users. How to support the development of new co-operatives in the perspective of a broader social enterprise sector is an important issue. Workers collectives were frequently cited during the visit by the OECD delegation to Korea as examples of productive units that seemed very similar to worker co-operative forms of social enterprise. It would seem productive to explore ways of incorporating such initiatives more formally, possibly expanding and reforming the social enterprise certification system.

*c) Third Sector/Private Partnerships:* The OECD delegation was impressed with the Korean experience of using CSR to promote the development of social enterprise. For example, the Dasomi Foundation was established with the assistance of the Kyobo Life Insurance Co. Ltd. and with the support of the Working Together Foundation in 2004. It provides fee-based medical services and uses its profits to cover costs for free medical services for low-income clients. It also hires single mothers to help support low-income families. The Joyful Union was founded in 1999 with support from City Bank and Grameen Bank. Similarly, the Social Enterprise Support Network provides a basis for experts from the business world to develop the management capacity of social enterprise. Park (2008) argues that U.S. corporations are more ready to integrate affiliated social enterprises into their business operations as suppliers or as part of a franchise operation. “Korean firms were very reluctant to participate directly in social programmes that share control with outside organisations, governmental or non-governmental organisations” (Park, 2008). The growing commitment to CSR today suggests nonetheless that there is potential to explore other CSR dimensions like using social enterprise in corporate supply chains in Korea, rather than relying on CSR for finance.

*d) Third Sector/Public Partnerships:* Partnership between the third sector and public sector bodies can be very effective if the resulting third sector organisation has independence and flexibility of operation. The OECD delegation visited the Haja Center, an exemplary initiative of such a partnership. An initiative of the Seoul Metropolitan Government and Yonsei University, it has created incubators for social enterprise (such as Yori and Noridan). This example could be replicated in different sectors and geographical areas.

A systemic approach to developing social enterprise and the social economy includes partnerships between university researchers and practitioners. In Korea, the Haja Center illustrates the benefit of such collaboration. In Canada, such partnerships have been institutionalised by the Social Sciences and Humanities Research Council that introduced Community-University Research Alliances (CURA) over a decade ago. In 2004, the federal government designated an additional CURA for the social economy across the country. These CURAs in the social economy now exist in several regions in Canada. While these are competitive grants, they are transforming the nature of research in many universities across the country. For practitioners, this is also a new process of learning and teaching, as both practitioners and researchers have much to learn from and to teach each other. This relationship between researchers and practitioners also had to be “*co-constructed*”. It is a useful illustration of *strategic knowledge mobilisation*.

**Box 15. Best Practice: Community-University Research Alliance on the Social Economy in Quebec.**

In Quebec, where the social economy has a long history, the CURA partnership has increased the capacity for strategic interventions in the many areas, from microsectoral issues to cross-cutting policy negotiations. The research clusters of the social economy (thematic and territorial) provide important documentation for analysis of the social economy, both conceptual and empirical. Researchers and practitioners collaborate on timely, urgent questions as well as on the development of tools. CURA also provides important opportunities for debate and reflection. The dialogue this has generated has been invaluable in developing a corpus of knowledge on the social economy. The broad circulation of material and the organisation of numerous public events have been critical to generating a dynamic policy dialogue within Quebec and across the country.

The relationship between researchers and practitioners is solid today; together they have created an innovative environment for collective learning that is both inter-disciplinary and participatory. Action research is not new. However, constructing an institutional environment that demonstrates the value of integrated research and interactive learning is challenging conventional approaches to education, research and pedagogy. The CURAs transcend institutional boundaries in new and innovative ways. An increasing number of students are involved either indirectly through a growing number of university courses and programmes on community economic development and the social economy or directly as interns or research assistants in a variety of projects. In Quebec, a growing number of young people have embraced the social economy as an alternative, democratically based economic development model, committed to social justice and equity. The research partnership in Quebec is an additional component in the strategic mobilisation that has characterised the evolution of the social economy in Quebec.

e) *Social Investment Bodies*: The need for investment capital for social enterprise exists in all countries and has given rise to a large and growing social finance sector. The Korean Foundation for Social Investment, Joyful Union, and the Social Solidarity Bank were introduced earlier in this report. Other organisations such as the Work Together Foundation also offer micro-finance, however, the need for a plurality of social finance institutions and a diversity of instruments remains. This includes both short-term and long-term investment tools. The OECD team discussed this issue with the many people they met during their study visit who expressed their interest to learn more about new financial initiatives in other parts of the world and how government participates in these initiatives. Financing the social economy is a very important issue internationally. There are an increasing number of social finance institutions and intermediaries that have been created in recent years that are providing loan and equity or patient capital to social enterprises, social firms, community based enterprises, etc., to those economic actors that are considered high risk by mainstream financial institutions or simply unfamiliar to them. From the micro-credit revolution in the 1990s to the growth of ethical savings and lending institutions, to socially responsible investment, the landscape of social finance has changed dramatically in recent years. The OECD has followed this trend in its publications providing a synthesis of the new financial tools and instruments available to these hybrid enterprises (OECD, 2003; 2005; 2008). The OECD experts recommend an informed discussion of these instruments that exist in numerous developed and developing countries.

The emergence and rapid growth of social enterprises in many parts of the world has created a new financial market to respond to the need for capital to finance these enterprises. In many parts of the world, these needs have led to financial innovation and to the development of a customised financial sector that is not a mere replication or extension of existing financial products and instruments. Today's changing social investment landscape is complex, requiring a diversity of financial products to correspond with the life-cycle of social economy enterprises and

organisations (start-up, or even pre-start up in some cases, consolidation and growth) and with their specific needs. This landscape also corresponds with a strategic reorientation from gifts to investment on the part of numerous large foundations and donors in the United States, for example, which refer to this new activity as venture philanthropy. The creation of new financial products and a new vocabulary (mission related investment, impact investing, programme related investment, social finance, solidarity finance, etc.) is a positive sign that the perception of social enterprises and the social economy is changing. As a result, the increasing trend towards ethical or socially responsible investment (SRI) represents a potential source of finance for the social economy. Institutional funds, such as pension funds in the United States and Canada, are also entering this market. Several large pension funds in the United States, for example, have taken the lead, providing important lessons for cautious institutional fund managers elsewhere, who continue to associate social enterprises with high risk investment beyond the legal boundaries set by fiduciary responsibility.

Government is facilitating the emergence and growth of this new financial market by developing enabling policy measures. This takes different forms in different countries and even between regions in certain countries, such as Canada. The participation of government includes legislation, fiscal incentives, direct injection of public funds, loan guarantees, and so on. In some countries a combination of these public policy measures are used. In others, such as the United States, government support is expressed primarily in designing enabling legislation. Today, innovation in social finance even includes the creation of social stock exchanges in countries such as Brazil and South Africa, for example, that have inspired the Rockefeller Foundation in the United States to fund research at the University of Oxford in Britain on the development of secondary markets and a social stock exchange in other parts of the world (Mendell and Nogales, 2008).

In Quebec, a network of socially responsible financial institutions, *Cap Finance*, that invests directly and in some cases, exclusively in social economy enterprises, was formalised at the end of 2009. Members of this include a provincial network of micro credit providers, a large credit co-operative, two labour solidarity funds, and two social economy investment funds established by the *Chantier de l'économie sociale*, *RISQ* that provides loans and the recently established *Fiducie du Chantier de l'économie sociale*, a patient capital fund that provides long-term investment capital to social economy enterprises and organisations. It will also associate the numerous local intermediaries across the province of Quebec that provide financial support to social economy enterprises and organisations.

This diversity of instruments responds to the diverse needs of the social economy. Until recently, for example, no long-term investment products were available, limiting all available finance to short-term lending. This greatly limited the capacity of social economy enterprises/organisations to consolidate their activities and to grow. The financial architecture of social or solidarity finance continues to evolve in Quebec to meet the needs of the social economy. There is work in progress to develop two new sectoral investment funds, for example, one for housing and another for culture. These developments are possible because of the close relationships established between social economy financial institutions, the organisations and enterprises in which they invest and the local and regional development intermediaries. Not only is this an example of financial innovation, but more important, it is an example of an *instituted*

*collaborative strategy* to assure the viability of social economy enterprises/organisations and their capacity to repay their loans and provide returns on investment. The integration of this financial activity into strategies for local and regional development both assists in identifying the financial needs and potential of social economy enterprises and organisations that are most often not recognised by conventional financial institutions. This is especially true for regions with high levels of unemployment, poverty and social exclusion.

**Box 16. Best Practice: La Fiducie de l'économie sociale and finance solidaire in Québec**

The FIDUCIE of the *Chantier de l'économie sociale* was established in 2007. For several years, social economy enterprises expressed the need for financial products other than traditional grants and loans, and at the same time, discussed ways to retain long-term capital in their businesses. They wanted new products that would take their social mission into account. As for private and institutional investors, many of them were reticent about engaging in the social economy; this despite convincing evidence of lower loan loss ratios in social economy enterprises and a survival rate twice that of traditional private businesses. The FIDUCIE is a response to these multiple needs. It is an intermediary between the financial market and social economy enterprises. The FIDUCIE offers a product to complement those available on the market already: "patient" capital, in other words, loans with a 15-year capital repayment moratorium. These investments are offered in two forms: operations patient capital – to finance costs related to working capital, marketing of new products, and the purchase of equipment – and real estate patient capital, to finance costs that are directly linked to the acquisition, construction, or renovation of real estate assets. The FIDUCIE works with an impressive network of stakeholders, increasing its capacity to effectively evaluate projects in a realistic and careful manner.

The FIDUCIE's initial supply of capital came from Economic Development Canada (a grant from the Government of Canada) and a number of investors including two large labour solidarity funds, the *Fédération des Travailleurs du Québec's Fonds de solidarité*, and the *Confédération des syndicats nationaux's FONDATION, Fonds de développement de la CSN pour la coopération et l'emploi* and the Québec government, *Investissement Québec* (a loan from the Government of Quebec). With this initial fund of CAD 52.8 million, the FIDUCIE can invest in and support the development of social economy enterprises. By attracting different investors, the FIDUCIE is able to pool risk and reduce the cost of financing for enterprises. Since it was established in 2007, the FIDUCIE has invested CAD 11.43 million in 39 social economy enterprises in a range of sectors and throughout the regions in Quebec. These investments by the FIDUCIE have generated a total of CAD 66.2 million in investments that have created and/or consolidated more than 1,120 jobs. The leveraging capacity of the FIDUCIE is almost 1:6, demonstrating the significant impact of its initial investments in social economy enterprises.

**Box 17. Best practice: Réseau d'investissement social du Québec (RISQ) of the Chantier de l'économie sociale**

The *Réseau d'investissement social du Québec (RISQ)*, (the Social Investment Network in Quebec) was established in 1997, to meet the needs of finance capital for social economy enterprises. It invests only in co-operatives and non-profit organisations in the social economy. The objectives of *RISQ* are to promote the development of the social economy and to create and/or consolidate employment in the social economy. *RISQ* offers loans up to CAD 50 000 as well as financial support of CAD 5 000 for technical assistance that is provided before issuing a loan or at the time the loan is made. *RISQ's* financial products include loans, loan guarantees or participatory loans. *RISQ* developed an important manual for investment officers to understand social economy enterprises and the eligibility criteria for loans including providing goods and/or services in the public interest and promoting democratic governance in social economy enterprises. This guide is an important tool for social economy financial institutions across Quebec and Canada. It has contributed to better educating those who work in this new financial sector, those who work in local and regional intermediaries that support the social economy and government, for whom this was and continues to be a relatively new area of intervention. Most recently, the Government of Quebec, in its Action Plan for the Social Economy, gave *RISQ* an additional CAD 5 million to provide funds to support pre-start-up for social economy enterprises. This is the first initiative of this kind and represents the recognition by government that social economy enterprises require time to explore the feasibility of new initiatives. Pre-start up funding increases the capacity of social economy enterprises to carefully develop business plans. Initial capitalisation for *RISQ* came from the Government of Quebec and the private sector.

Financial innovation in Quebec has benefited greatly from collaboration between established and new actors in the social economy and university researchers who have developed new instruments and providers together.

*e) Public Sector:* State funded support services for small and medium-sized enterprise (SMEs) is common but is most often unavailable to social enterprise and the social economy, which require specific, tailored support. It seems that Korea is following the path of providing this; nonetheless, some experts argue that it may be worthwhile to develop “braided” support combining state SME services and social enterprise support services to extend the range of services currently offered (since, for example, SME geographical coverage may be more widespread). This is included in the *2008-2012 Basic Plan and Law for Enterprise Promotion* but international experience suggests the fit of SME support with the needs of social enterprise is not always well adapted. While this is certainly true, there is an argument to be made for a “level playing field” that provides similar support for social enterprises, which can be customised to meet its specificities.

### ***Links to Policy Process***

The *National Council of Social Enterprises* in Korea is a relatively young organisation, which began its activities early in 2008, and registered in July 2008. Its board meets quarterly, and it has two employees. The Council has conducted a survey of 33 of its members (28 were returned) and found that only 18.5% were financially independent and 33% had earned income of less than 50% of total income, that is their earned income did not even reach 50% of their financial support from government. Its policy priorities are: improving procurement for social enterprise, extending government subsidies, reducing taxation for social enterprise and representation and promotion of Korean social enterprise. Although its members represent just over half of the certified 218 social enterprises, it is not part of the policy process of the Ministry of Labour. The Work Together Foundation, however, does have links with the Ministry of Labour; it is one of six regional bodies supporting social enterprise and receives funding from the Ministry of Labour. According to Park (2008), the Work Together Foundation was important in drafting the current Act with an influential policy paper on social enterprise in 2006. And there is a wide range of social economy organisations that play a role in the development of social enterprise, including NPOs, foundations, noted above, as well as co-operative federal bodies raising the potential for government to widen its net, so to speak, to incorporate and integrate the social economy into its current policy initiative. As stated above, the hoped for outcome of such a decision will also be the basis for institutional innovation and greater policy effectiveness. The long history and experience of the Work Together Foundation, is invaluable in contributing to this process to design a more efficient institutional architecture that will have the capacity to develop the dynamic, circular and ongoing relations proposed earlier.

### ***Future Strategy: Basic Plan***

The Ministry of Labour has prepared a *Basic Plan for Social Enterprise Support 2008-2012*. This has four major objectives:

- foster a culture favourable to social enterprise;



- develop creative business models and promote new social enterprise;
- support innovation in social enterprise management; and,
- establish the social enterprise support system.

It is a well worked out comprehensive and coherent Plan that demonstrates learning from international experiences about social enterprise development. Some interesting features of this Basic Plan are: developing CSR links and linking with large private NGOs; developing a system of performance indicators for substantiating the value of social enterprise; developing public/social services markets; improving social investment systems; educational measures to improve awareness and expertise; strategies for different sectors (environment, culture, etc.); improving support and infrastructure; and, strengthening the role of local government to support social enterprises, etc.. However, some of its aspirations remain challenging for a relatively small sector; for example, breaking into quasi and voucher markets are difficult even for much larger and established social enterprise sectors. And there is a clear need for greater promotion of social enterprise – for example a November 2008 survey by the Research Institute for Social Enterprise reported that only about 16% of people understood the meaning of social enterprise.

As emphasised in this report, the link between social enterprise and the social economy must be made. The Korea Labor Institute, for example, has produced some excellent work and pertinent recommendations that conform to the recommendations by the OECD team. Yet, this influence seems less apparent in the adoption of a strategy that challenges social enterprises to become market actors in a very short period of time, as has already been pointed out. It appears that the European influence has ceded to a more American approach to social enterprise that emphasises the commercial capacity of enterprises that serve social objectives.

As noted previously, developing commercial markets for social enterprise is a challenge in all countries in which these enterprises are emerging. This is as true for those sectors that do receive recurrent government support as it is for those that have to achieve financial autonomy. With some exceptions, these are, for the most part, small enterprises. The illustration of the day care network in Quebec is an example of scale that is not easily replicated in all sectors. That said, there is discussion to form inter-sectoral consortia to achieve the same benefits as a large single sectoral buyer. Public procurement is the most commonly proposed strategy to access large markets. Government, at all levels, is a very large purchaser of goods and services. In many countries, procurement or public markets create secure commercial opportunities for social enterprises. The following examples from the U.K. illustrate two different approaches to public procurement.

**Box 18. Best practice: BEST Procurement (East Midlands, U.K.)**

BEST Procurement stands for Benefiting the Economy and Society Through Procurement. It is a major initiative bringing together a partnership of agencies from the public sector, social enterprise support organisations and experts, social enterprises themselves and the sustainable development research centre who are all working to:

- assist social enterprises in developing their capacity as suppliers for the public sector;
- provide public sector agencies the opportunity to test innovative approaches to achieving broader public benefit through mainstream expenditure; and,
- be a clearing house for market intelligence on public sector demand and support of sustainable business solutions in the East Midlands, enabling social enterprises and public sector agencies to identify relevant opportunities.

Source: [www.equal-works.com/DPDetail.aspx?ety=e4abb448-28a4-4a11-8a08-5d81f5ef5803](http://www.equal-works.com/DPDetail.aspx?ety=e4abb448-28a4-4a11-8a08-5d81f5ef5803)

**Box 19. Best Practice: Local Social Economy Partnerships (Scotland)**

Futurebuilders Scotland: Investing in the Social Economy creates local social economy partnerships to cover all local authority areas in Scotland. Thirty such partnerships have been established. Each includes Communities Scotland, Scottish Enterprise or Highlands and Islands Enterprise, the local authority and the local Council for Voluntary Services (CVS) as its core partners. The goal of these partnerships is to support the growth of the social economy by:

- facilitating local networking;
- strengthening the range of locally available support, including from Business Gateway or the local enterprise company; and,
- unlocking market opportunities for social organisations.

Source: [www.communitiesscotland.gov.uk](http://www.communitiesscotland.gov.uk)

Other proposals for public procurement include the unbundling of large contracts, to open large markets to smaller producers of goods and services. An interesting example in Chinese Taipei is yet another example of creating a “protected market” for social enterprise.

**Box 20. Best practice: Use of Protected Markets (Chinese Taipei)**

An important model for social enterprise has been developed in Chinese Taipei, where the government grants NPOs the right to operate in protected markets, by providing the space and facilities.

NPOs engage in commercial activities by means of outsourcing contracts, such as the coffee shop of the Taipei and Kaohsiung government. Taipei government's Enjoy Coffee was formerly run by the Children Are Us Foundation and subsequently by the Taipei Victory Centre for Enhancing the Potential of the Disabled People. The Kaohsiung government's Smile Coffee is now operated by the Children Are Us Foundation. As well, the government also periodically allocates public space to NPOs for their commercial undertakings. The best examples in this case are the gasoline stations entrusted to NPOs by the Taipei government. The land was formerly controlled by the Labour Bureau of Taipei and the gasoline stations were operated by China National Petroleum. With the aim to increase employment opportunities for disabled people, China National Petroleum donated the facilities and the government opened these to public bidding in 2002. Seven NPO welfare agencies submitted 11 working plans. In the end, it was the Sunshine Social Welfare Foundation and the *Syinlu* Social Welfare Foundation that acquired rights to the gasoline stations for three years. Eighty percent of the entire staff must be disabled. In the past, disabled people had to engage in physical labour with low added-value jobs including cleaning, washing cars, transporting heavy loads, etc..

Source: Yu-Yuan and Shu-Twu (2009)

And finally, commercialisation strategies include the development of social purchasing portals. The Canadian Social Enterprise Marketplace offers a broad range of products and services, in rural and urban communities across the country ([www.enterprisingnonprofits.ca/marketplace](http://www.enterprisingnonprofits.ca/marketplace)). In Quebec, goods and services produced by social economy enterprises can also be purchased from an electronic portal ([www.achetersolidaire.com](http://www.achetersolidaire.com)). The *Chantier de l'économie sociale* has developed its own portal that includes information on social economy enterprises across the province of Quebec. This permits the development of an internal market or a supply-chain of social economy producers and suppliers of goods and services. Developing markets is a challenge that is increasingly being met through a combination of accessing large public markets through public procurement policies and innovative commercialisation strategies.

## **POLICY NEEDS OF THE SOCIAL ECONOMY IN ITS ROLE COMBATING SOCIAL EXCLUSION: EFFECTIVENESS AND GAPS**

This report has provided an overview of the social economy landscape in Korea. It has also situated the current social enterprise framework in the social economy both historically and normatively. While the effectiveness of policy has been raised throughout this report, including proposals for modification and/or new policy initiatives to reinforce the capacity of the Korean government to reach the objectives outlined in its promotion of social enterprise, in the following discussion, the focus is on how broader policy measures to support the social economy may achieve these objectives. This section addresses the limits of current policy measures and proposes some alternatives or complementary approaches drawn on experiences elsewhere. While it addresses the policy framework for specific social economy organisational forms, *ultimately a more organic or systemic approach that includes the specific needs of co-operatives, NPOs, CSOs, foundations, etc., will best achieve the objectives of the current more narrow social enterprise policy framework.*

### **The Social Economy**

In this part of the report, the OECD team expands its suggestion to develop a more integrated policy stance on the social economy and social enterprise and its focus on the capacity of enterprises and organisations to consider the impact such of an approach on wealth creation and the socio-economic development of local communities. To that effect, this section addresses the social economy both as an organisational form and as an economic actor. This reinforces the need to apply a *plural economy approach* that includes the private sector, the public sector and the social economy, each with its capacity to carry out certain economic activities most effectively. The OECD called for such an approach many years ago in a 1996 publication, *Reconciling the Economy and Society*, which had a great deal of influence internationally and informs this analysis. Since that time, numerous scholars have adopted this approach, often citing the important influence of Karl Polanyi (Laville, Lévesque and Mendell 2007; Mendell 2007; Polanyi, 1944). The work of Karl Polanyi has great respect in Korea today. The OECD delegation discovered that his influence goes beyond the university to include practitioners in social enterprises and the social economy.

The notion of the *plural economy* captures the role of the social economy as complementary to the public and private sectors. But the significance of the concept of the plural economy is greater still as it does not accept the boundaries between these three components or sectors. Each are producers and consumers of goods and services; each require government support and intervention; each engage in market activity as producers and/or consumers. What is significant in this understanding of the landscape of the economy is the need to recognise and accept the effectiveness and ineffectiveness of each in certain activities as well as their complementarity in others. Most importantly, in the context of this report and its analysis of the social economy and

social enterprise in Korea, is that the social economy can become a template for re-embedding of the economy in society, that is, for the adoption of socio-economic development strategies that serve communities. The current policy framework to promote social enterprise in Korea, considers the potential of these enterprises to transform the lives of disadvantaged individuals by creating opportunities for productive employment and/or meeting the need for new social services not provided by the market or by the public sector. Its integration into a broader socio-economic development strategy is given indirect consideration, at best. While the Ministry of Labour identifies four types of social enterprise that are eligible for support, the fourth type, community social enterprise, that produces community services, utilities, environmental, and cultural services for the community and does not have to meet employment requirements, perhaps goes the farthest in recognising the *collateral benefits* or *positive externalities* that social enterprise can bring to the local community.

If the current limitation to enterprises providing services were lifted to include the production of both goods and services, as suggested earlier in this report, the potential benefit to community would be even greater. Following the logic of triple bottom line objectives, such enterprises would achieve the goals set by the current policy to promote social enterprise and generate greater possibilities for economic growth in low income communities. The sustainability of these enterprises would rest not only on their capacity to meet the immediate needs of a specified clientele (disadvantaged workers and/or citizens) but on their integration into a comprehensive strategy of community revitalisation. The multiplier effects of this approach are much greater than the narrow attention focused on the enterprises alone. It would also provide opportunities for people to work in different enterprises, those that provide services and those that produce goods for the market. This would embed the current, somewhat limited perspective on social enterprise into a broader approach, integrating these enterprises into socio-economic development strategies for local communities. The spin-offs from such a broader approach are numerous. They will be outlined below.

The social economy has roots in Korean society, as outlined at length in this report. The OECD had the privilege to learn about the history of the co-operative movement in Wonju, for example, and its important roots in the community. As noted earlier, the delegation also met with the founder and members of the Hansalim co-operative in Seoul, now a large, very successful and well established social enterprise in the broadest sense that continues to have a significant impact on the communities in which Hansalim co-operatives are located, such as Wonju, where it was first established.

Other remarkable more hybrid initiatives such as the Haja Centre, also demonstrate a broader interpretation of social enterprise to include incubating social enterprises in different sectors of activity with economic potential, while meeting social objectives. This potential is larger than the immediate results of job creation and service provision. And finally, the study trip and the documents consulted by the OECD delegation underlie the important role of community and civil society organisations in the current social enterprise agenda. These roots must be nurtured for the current policy measures to be successful.

The foundation for a dynamic social economy exists in Korea, as does the capacity to work towards more integrated, comprehensive approaches. The concern that the social enterprises

currently supported by government may not achieve results due to the limitations of the current policy measure will be significantly attenuated. This does not suggest abandoning the current measure. On the contrary: there are at least two approaches that must be considered. The first concerns carefully re-examining the current micro-enterprise approach to introduce more flexibility and certainly more time. The second concerns the integration of the social enterprise policy measures into a broad and overarching social economy policy framework. For this to occur, several conditions must be met, some of which were raised earlier, but bear repeating in this more macro-social analysis. Strengthening the potential of the social economy to meet the objectives set by policy makers today will require:

- building a broad and democratic alliance for the social economy against social exclusion rooted in communities;
- linking this with social enterprise policy;
- creating sites for inter-ministerial collaboration and horizontal policy innovation within government; and,
- supporting the creation of multi-stakeholder intermediaries to work closely with social economy actors/networks and to collaborate with government.

As emphasised earlier, these objectives call for *institutional innovation* and for *new processes of policy formation*. The *co-construction of public policy* will best achieve the above objectives, as will opening new channels of communication and collaboration between different levels of government – local, regional and national. A *coherent policy framework* and *distributed governance* to include a wide range of representation and dialogue will increase *policy effectiveness* and the capacity to reach those for whom these policy initiatives are intended. But it will also increase government's capacity to develop a new approach to economic development that must ultimately include transforming a logic of subsidisation to a logic of investment that will generate both economic returns and contribute to social well-being. *There is great interest in Korea in the concept of social return on investment (SROI) as it applies to social enterprise; such an approach should also be applied to government to evaluate its financial investment in these initiatives.*

Social movements linked to the social economy (anti-poverty and pro-democracy) have recently played an important role both in campaigning for disadvantaged people and in creating new enabling initiatives. Government has built on these initiatives. Today, there is a need to ensure that the civil society roots of these initiatives are recognised. It is useful to return to the roots of the social economy in Korea with this in mind. Such an approach is different from a simple cataloguing of experiences developed by constituent actors. Rather, it is essential for the development of an integrated approach that can contribute to the design of an innovative policy framework for social inclusion, job creation and an improved quality of life for disadvantaged persons. It also provides an important infrastructure for new initiatives, the emerging social enterprises that can benefit from these early experiences. This is, in fact, occurring in Korea but it is not given enough visibility and perhaps the movements and organisations that have shaped the social economy in Korea do not yet identify themselves in this way. The following sections explore how government can increase its policy capacity by promoting these links.

## *Co-operatives*

This report has emphasised the important role that traditional co-operatives play in Korean society today. Located primarily in the agricultural sector, their potential to participate in poverty reduction in rural areas must be recognised in the current policy environment. The legacy of the strong links between government and traditional co-operatives can perhaps be the basis to explore how these co-operatives can achieve more independence (governance) and renegotiate government support that transforms the institutional relationship from *control* to *collaboration*, providing public support for activities that serve the public interest.

Government can work collaboratively with both old and new co-operatives. The more common divisions into old and new co-operatives that characterise many countries (Europe, North America and countries in the developing world) are not the only issue here. There are “older” more independent co-operatives, such as the community credit co-operatives or credit unions discussed earlier. The question of a more independent co-operative sector must be raised today in a new context. Measures to assist their independence and increase their effectiveness could usefully be developed, especially for the socially excluded in rural areas. Moreover, while some parts of the traditional sector may be conservative, other sectors (especially consumer/user based) can build alliances with younger and weaker co-operatives. The alliances that exist in Wonju are an important example.

New co-operatives (community and medical, and fair-trade/organic) have a great deal to contribute. Their recognition as social enterprises has opened new channels of communication between these co-operatives and government. The OECD delegation met with individuals involved in these co-operatives that are spearheading innovative approaches in holistic and preventative medical services, child care co-operatives and food sovereignty, as they develop local food systems, for example. In addition, innovative co-operative initiatives such as iCo-op confirm the capacity to extend the co-operative model from a single enterprise or sector to a cluster of sectors to meet multiple social and economic needs of communities. The OECD delegation met with representatives from iCo-op who are learning from international experiences in the Netherlands, Belgium, Spain, and Italy as they develop their own model. The reference to Mondragon as a benchmark demonstrates the commitment of iCo-op to an integrated approach able to address educational, health and food needs, in this very interesting and inspiring Korean example. In Wonju, the large network of co-operatives assists in negotiating with government. This is not necessarily true for other cities that do not have this institutional legacy.

Still, the certification of co-operatives as social enterprises has its own limits as well, as was pointed out to the OECD delegation. The focus on enterprise, on a new business model, that informs the social enterprise policy framework, might lead to perverse results, if co-operatives have to transform their successful practices in order to meet the needs of this new policy measure. In the case of the Wonju Medical Co-operative, for example, it can only bid for government contracts as a social enterprise. Representatives from Wonju Medical Co-operative stated that this could divert their objectives to perform as a well functioning co-operative. Moreover, it diverts attention from the need for a comprehensive legal framework for co-operatives that does not yet exist in Korea. Consumer co-operatives, for example, are still limited to serving their members, considerably reducing the capacity of a medical co-operative to serve the community. This

suggests the need for a much broader approach to the social economy that would include social enterprise as one important and strategic policy tool, among others. The risks of policy failure are high when reality must conform to the eligibility criteria established for new programmes. The Korean government has recognised the importance of the new generation of co-operatives and has sought their support in designing these new policy measures. The current Social Enterprise Promotion Act and its certification process must be part of an *iterative process of policy design*, and not an end in and of itself.

### ***NPOs (Including New Foundations)***

Government must recognise the potential contribution of the not-for-profit sector to new developments in Korean society with increased support for their activities. In particular, this support should be provided to traditional NPOs that might benefit from capacity building and new foundations. Each of these is developed below.

#### ***Reform of traditional NPOs and capacity building measures***

While social movement based civil society organisations have been prominent in their support for the disadvantaged and the socially excluded, the more traditional service delivery part of the non-profit sector faces some challenges, if they are to compete in the new markets for welfare services, especially in voucher regimes, where a different logic operates to that of negotiating with government for support. Thus, improving the capacity for NPOs to deliver welfare services is an important part of strategy for developing the social economy.

Evidence from U.S. research about successful capacity building processes indicates that these processes should be assessment led, flexible and customised; “client competence and readiness” needs to be taken into account; the involvement of competent support agencies, particularly consultants who apply a *process or development approach* is important; and the timeliness of the intervention is crucial (Cornforth *et al.*, 2008).

#### **Box 21. Best Practice: England – Futurebuilders Capacity Building Initiative**

Futurebuilders provides loan financing, often combined with grants and professional support, to third sector organisations in England that need investment to help them bid for, win and deliver public service contracts. The aim of the Fund is to substantially improve the financial and strategic capability of the third sector so that it can play an ever greater role in improving the lives of the people and communities it serves. Futurebuilders has invested in nearly 300 third sector organisations of different sizes and stages of organisational development. Support is in the form of loans, grants and professional advice. By the end of April 2009, it had invested GBP (United Kingdom Pounds) 111.6m in 331 organisations (with well over 1000 applications by 2007). The main emphasis has been on loans with the aim of overcoming market failures for third sector organisations accessing finance in the market. The average repayment period so far is 14 years, and 60% of the financing is for physical capital, where Futurebuilders may take a charge on the assets when lending alongside commercial lenders, *i.e.* they are securitised so that a legal claim can be made on them in case of default. A key area of investment is for scaling up innovative services provided by small and medium sized third sector organisations, where a range of support measures have been effective. Government responsibility for Futurebuilders lies within Office of the Third Sector with Angela Evans Smith, Minister for the Third Sector, as lead minister. At the heart of the Futurebuilders programme is the GBP 125 million Futurebuilders Fund.

More information at: [www.cabinetoffice.gov.uk/third\\_sector/funding\\_finance\\_support/futurebuilders.aspx](http://www.cabinetoffice.gov.uk/third_sector/funding_finance_support/futurebuilders.aspx)



Futurebuilders is an important illustration of how *a policy mix is often required to permit NPOs to build capacity and operate in the market*. While the availability of these loans is an important example of how government supports the need for NPOs to build capacity, the question of access to markets must complement this approach (CRESR, 2008). For example, government can combine this salutary lending facility with procurement and/or commissioning markets to help scale-up these organisations thereby not only assuring their capacity to repay these investments by government but also their sustainability. In some countries a close link between traditional NPOs and social enterprise helps the development of both. Thus NPOs can enter contract and voucher markets by sponsoring the development of independent social enterprises by creating trading subsidiaries that act like social enterprise in the market. And with good linkages, learning about successful entrepreneurial models is enhanced.

In Korea, institutional barriers limit the capacity of NPOs by restricting profit seeking activities. This is why many social enterprises become corporations under Korea's Civil Code. This certainly poses problems for the future, if social enterprises are not distinguished from private enterprises by law. *A new legal status for social enterprises has to be explored*.

### *New Foundations*

There has been a growth in new foundations built on community foundation models (such as the Work Together Foundation). As noted earlier, some of these benefit from corporate sponsorship such as the Hana Hope Foundation founded with the support of Hana Bank, (one of the largest in Korea). New foundations seem to be an effective Korean model for supporting the development of the social economy (and more specifically social enterprise). It seems important to strategically support such developments (including fiscal incentives for donations, and CSR), encourage these foundations to operate in an engaged strategic manner with the social economy, and link their activities with strategic development as outlined in the Basic Plan 2008-12.

### *Social Enterprise*

This report has repeatedly raised the concern with the current interpretation of social enterprise that informs Korean public policy. It is important to stress that this concern does not imply disagreement with this policy choice as a tool to address complex and deeply rooted social inequities, arising from long-term structural unemployment, high rates of poverty, social exclusion of a growing number of people, and a new demographic reality calling for greater provision of social services. Rather, the concern is that the current policy to promote social enterprise is not considered a "work in progress". In other words, *reflexive work* has to be done now within government, as the current first phase of this policy measure is ending. Applying a more *dynamic policy design approach* that permits for modification while current policy is "rolled out", will bring better results for both the beneficiaries of these new measures and for government that will thereby greatly reduce the risk of policy failure. This is not the customary process for policy design; the OECD team is well aware of this. That said, *ongoing evaluation of new and innovative policy measures must be adopted in contrast to an ex-post evaluation, that is more static, time-bound and in a worst case scenario, too late*. And as stated earlier, such a process is increasingly recognised for its efficiency and for its effectiveness.

The following section provides a few proposals for how to reduce the risks raised above.

Underlying these suggestions (they are not exhaustive, by any means) is the need to begin to examine their feasibility immediately.

The report focuses on the following proposals:

1. Broadening the basis for social enterprise;
2. Reconsidering work integration strategies;
3. The need to explore a new legal form for social enterprise;
4. How to build capacity; and,
5. Proximity services embedded in the community.

### ***1. Broadening the basis for social enterprise***

It is possible to take a *narrow and broader perspective on social enterprise*. The narrow perspective considers only those social enterprises officially certified by the Ministry of Labour. A broader perspective would include all those social enterprises trading with more than 50% earned income. It is important to do this in order to build bridges with innovations, resources and structures of the wider social enterprise sector that are embedded in the social economy. There are several identifiable benefits from adopting a broader perspective that have already been noted and are summarised below.

- the social enterprise sector will grow and its “brand” value will be strengthened;
- social enterprise will not be “ghettoised” as only serving the disadvantaged or as a welfare-to-work programme;
- there are distinct advantages for public services delivery;
- strong ethical values (e.g. of fair-trade) help to broaden its support; and,
- locating social enterprise within the social economy increases the potential for broad policy objectives to promote a strong and vital third sector.

The National Council of Social Enterprises is well placed to explore the next steps, given that the first phase of the certification programme is now ending. This provides a critical occasion to evaluate the existing policy framework and explore how this might be improved to meet the needs of social enterprises. The benefits outlined above are easily identifiable and have greater potential in the wake of the financial and economic crisis and a growing concern on the part of citizens for a new ethical business form. This opportunity must be seized and government must explore how its commitment to social enterprise can be better reflected by addressing the shortcomings of the current approach.

### **Box 22. Social Enterprise Coalition (England)**

The Social Enterprise Coalition (SEC) was formed in 2003, and aims to be the voice of the social enterprise sector. It represents the interests of its members and develops and consults with government over policy, publicises and promotes social enterprise; develops the evidence base, and good practices; and, networks and co-ordinates activities.

In the early days of the development of social enterprise, there were relatively few social enterprises that could lead the sector. Additionally, it was important to bring together the major players (network and umbrella organisations) in the third sector to ensure coherence and representativeness – these included the co-operative sector (workers, consumers, housing, etc.) as well as the various strands of the voluntary or non-profit sector. Thus, there were different categories of membership: social enterprises, regional and national networks, social enterprise umbrella organisations, and partner organisations.

The governance of the Coalition has recently changed, with a smaller Board of 12 members and a new elected Council of 46 members that will provide a forum for shaping policy. The Board will be made up of chair (a social enterprise practitioner), six members elected from the council (three of which should be practitioners), three members selected through open advert (two of whom should be social enterprise practitioners), and two executive directors (chief executive and finance director of the SE Coalition).

The Council will comprise 46 elected members, including the Chair of the Board drawn from the 4 different categories of membership:

- 23 members from social enterprises
- 12 members from regional and national networks
- 6 members from social enterprise umbrella organisations
- 4 members from partner organisations

Social enterprise in the U.K. is broadly defined, and the SEC has policy in a wide range of areas:

- Economic and social justice (employment, community regeneration, skills and learning)
- Environmental sustainability (renewable energy, recycling, community transport, etc.)
- People and well-being (children and young people, criminal justice, health and social care)

Policy also focuses on support to enable the development of social enterprise in the following areas: business and enterprise support, finance for social investment, legislation and governance, public sector, tax breaks (for social investment and profit reinvestment), and building relationships with strategic partners.

The Social Enterprise Coalition (England) has strong links with Social Enterprise Coalitions in Scotland and Wales.

The current limited development of social enterprise reduces the potential of the “brand” in a wider range of sectors beyond work integration. This is compounded by the growth of more flexible employment and temporary work in Korea, increasing the number of people in precarious employment that will likewise increase the demands placed on social enterprises as precarious employment slides into unemployment for many in this situation, especially the large and growing number of women.<sup>7</sup> This limits the potential of building a wider movement of social enterprise, and linking it more closely to the social economy. That the certification system is administered by Ministry of Labour, and sets limits on the number of social enterprises that can be formed as well

as its focus on work integration, seems to have created a situation where other Ministries may feel social enterprise is not relevant to them. *Perhaps Korea should follow other countries and adopt legislation that distinguishes the specificities of social enterprise as well as a range of government support that reflects the needs of social enterprises in different sectors as well as their short and long term capacity to become independent market actors, as suggested earlier in this report.* The current more homogeneous interpretation of social enterprise prevents this important differentiation, despite a common goal to work in the public interest.

## **2. Reconsidering Work Integration Strategies**

The need to broaden the interpretation of social enterprise sectorally and functionally also applies to Korea's approach to work integration, its central objective. At the moment, government support for social enterprises imposes the creation of permanent jobs. Yet, the wage subsidy currently provided is only for two years, assuming that these enterprises will become sustainable with this support. Moreover, since the wage subsidies given to social enterprises are at the beginning of the funding support period and end at the same time two years later, this is a very "lumpy" form of support, that can actually compromise the ability of the enterprise to develop its entrepreneurial capacity and management skills and actually be forced to lay off workers hired through this process. The risks of policy failure for government are potentially high if this becomes a revolving door in which those laid off seek employment in new social enterprises two years later. In fact, the stated objective of creating full time employment can, *de facto*, become transitional employment without the benefit of a well developed and a more long-term work integration strategy. This also increases the risk of failure for emergent social enterprises. *The requirement for social enterprises to develop permanent employment will need to be reconsidered in a review of the current policy measures to support social enterprises.*

In most countries, work-integration social enterprises are transitional employment models where public funding supports disadvantaged individuals who can be hired by the training organisation at any time. This is true in Europe and in the province of Quebec in Canada where there is a well established and successful work integration model. In neither case is there any expectation that the transitional employment created by social enterprises will create permanent jobs. Rather, these enterprises seek placements elsewhere for trainee participants. As such, the core business, so to speak, of these enterprises will not be vulnerable as they are designed to benefit from this form of employment. WISE are generally work environments that lend themselves well to transitional employment to produce goods and/or provide services. The training they provide is essential for those who are thereby enabled to find stable employment following this experience.

*The current policy framework in Korea increases the vulnerability for those hired in these social enterprises and the enterprises themselves.* A culture of government sponsored social enterprise with stringent eligibility criteria and prescribed objectives can compromise the ability of these enterprises to contribute to economic development. Paradoxically, rather than creating a springboard for social enterprise to flourish, the current approach may in fact establish a culture of dependency.

That said, it is important to note that there are examples of social enterprises for the disabled

that do create permanent jobs, as previously indicated in this report. But there is no expectation that these “adapted enterprises” will become financially autonomous. Government support for these enterprises is recurrent, permitting them to produce goods and services at lower rates of productivity that correspond with the capacity of its workers. The support by government is an investment that brings returns to the employees engaged in productive work, to the enterprises better able to compete on the market or offer high quality social services (they exist in many sectors of activity) and generate fiscal revenues for government. These individuals would most likely require publicly funded social services and/or institutionalisation, depending on the severity of their condition, if they were not employed in these enterprises, thereby contributing to the cost of health and welfare provision by government. The social returns on this investment for government need no emphasis. The concern that the Korean approach to social enterprise does not recognise the need for government to remain engaged is raised here. That both training enterprises and adapted enterprises for the disabled are distinguished allows for better policy results. In the case of the former, workers are trained to move on. In the case of the latter, those employed have either physical or intellectual limitations restricting their mobility in the labour force. In Korea, this distinction does not exist, thereby confounding different labour markets and different labour market objectives.

Research undertaken by EMES in Europe shows that most initiatives are for transitional employment where social enterprises take in participants, provide them with work and training for periods ranging from six months to four years and help them secure employment elsewhere. Such systems of transitional employment/training are based on contracts and subsidies that consider the real cost of training and temporarily subsidising employment of disadvantaged people, while trading in the market. Thus, short term contracts for providing training and work underlies the sustainability of these social enterprises. Should such an approach be adopted in Korea, this would allow a greater number of trainee participants to be assisted, since six to nine months is a more typical length of contract required for work integration. Shifting to a transitional employment system would require addressing the inadequacies of the current job placement system or enhancing the capacity of social enterprise to perform such activities. There are numerous structural labour market problems that cannot be addressed by the current policy to support social enterprise development. These form the context for integration strategies. Currently, the level of work integration support for disadvantaged workers is very low (4388 workers in two years); the Korean employment rate is 64%, but lower for women and youth, so there is considerable potential for increasing this level. There are over one million recipients of National Basic Livelihood Security who are classified as unable to work, for example.

### **Box 23. Best Practices: Innovative Practices in Europe – Work Integration Social Enterprises**

Within Europe, public work integration programmes have gradually opened up to innovative third sector organisations, known as “work integration social enterprises” or WISE. Many of these offer jobs with wages while providing training – thereby combining elements of both the economic and capabilities approaches.

This ability to combine labour market measures with non-financial mechanisms, such as lifelong learning or family-work reconciliation, is a key factor in the success and growth of WISE. Also, their tendency to pursue an integrated approach, bringing together all bureaucratic steps under one single organisation rather than having people go from one government agency to another, makes WISE much more accessible to the socially-excluded and enables them to provide customised support for specific target groups.

#### **Modes of integration**

WISE are generally classified according to the modes of work integration and the types of subsidies they provide – whether permanent or temporary. In Europe, there are four main modes of integration:

##### *Transitional employment (temporary jobs, temporary subsidies):*

The aim is to give a target group of disadvantaged people basic work experience (transitional employment) and/or on-the-job training to increase their employability in the labour market. The form of employment can vary depending on the work contract, ranging from traineeships (6 to 24 months; remunerated or unpaid with continued benefits) to fixed-term or open-ended contracts complying with national salary scales. By combining productive work (whereby products and services are actually sold in the market) with training for recognised qualifications, these types of WISE are aimed at improving the personal, social and professional competencies of participants, and so help to integrate them into the open labour market.

##### *Creation of permanent self-financed jobs (permanent jobs, temporary subsidies):*

These WISE create stable and economically sustainable jobs for disadvantaged people. In the initial stage, public subsidies are used to compensate for the target group's lack of productivity. These are then stopped or diminished after the training phase or as workers become competitive within the mainstream labour market. The WISE then pays the newly-integrated workers from their own resources. This mode of integration is best suited to people who, with training and support, can overcome their disadvantage and compete in the open labour market.

##### *Integration with permanent subsidies (permanent jobs, permanent subsidies):*

These WISE employ very disadvantaged groups – mainly people with physical or mental disabilities, but also people with a severe “social disadvantage”, for whom integration in the open labour market would be difficult in the medium-term. Providing stable jobs that are permanently subsidised by public authorities, these types of WISE include enterprises that are “sheltered” from the open market, such as the sheltered workshops in Portugal, Sweden and Ireland. But although such schemes can help people build a “social identity” and acquire some professional competencies, few workers involved in them actually become productive enough to find employment in the open labour market.

##### *Socialisation through work or productive activity:*

In this category of WISE, the aim is not to integrate people into the open labour market (even though this possibility is not excluded), but rather to (re)socialise the target groups by teaching the people concerned respect for rules, helping them achieve a more “structured” lifestyle, etc.. The productive activity is subsidised and is “semi-formal” in the sense that it does not involve a standard employment contract, but more generally an occupational status, under which workers do not receive a salary but sometimes an allowance or free board and lodging (communal living). These types of WISE work mainly with people with serious social problems (alcoholics, drug-addicts, former convicts etc.) and people with severe physical or mental disabilities. Examples include Belgian waste recuperation and recycling enterprises that work with people having serious social problems, and occupational centres in Spain, which provide therapy as well social and personal services to people with serious disabilities.

The most frequent integration method used by WISE is transitional employment, but this varies strongly according to the country. France and Germany, for example, tend to concentrate their efforts on transitional employment, while Belgium and Ireland strive to ensure longer-term employment. Also, it appears that the majority of WISE concentrate on a single mode of work integration, although some do combine various modes within the same enterprise. The most common combination is transitional employment with permanent self-financed jobs. This is the case, for example, in type-B social co-operatives in Italy and in neighbourhood enterprises in France. No WISE provides temporary jobs with permanent subsidies.

In Europe, there are many examples of transitional employment WISE and policies that support their activities. The following is an example of one such WISE initiative in Italy funded by municipalities.

**Box 24. Best Practice: Transitional Work Integration in Italy (Borse Lavoro)**

Many employment services for the disadvantaged in Italy are delivered by social enterprises through BORSE LAVORO. "This scheme, funded by municipalities, consists of a fixed term contract for individuals, and can last from a minimum of three months up to a year or more. The average monthly salary paid to individuals is around EUR400. Salaries are paid by the municipalities. There are multiple benefits for employers including free labour, tax reductions (from 50% up to 100% for smaller enterprises) and involvement in corporate social responsibility activities. The majority of vulnerable people are employed in the service sector, specifically in social enterprises. The scheme includes: development of an educational plan, matching the individual with the social enterprises on the scheme, action planning, management of administrative procedures, mentoring the individual once in work and the final assessment of outcomes."

Source: Centre for Economic and Social Inclusion (2007)

Another example of a wider interpretation of work integration is *customised and holistic work integration and employment services*. Korean job placement has a poor record and is better suited for the primary labour market (especially manufacturing). Most disadvantaged individuals find themselves in the secondary labour market and in service sectors. To effectively deal with disadvantaged people, it is important to link transitional work integration systems (like WISE) to *coherent and effective employment and placement services*; these function most effectively when customised for the disadvantaged, and when designed in a holistic manner to address the multiple causes of disadvantage. This often leads to multiple stages in the support service where partnerships exist between state services and the social economy (and private business).

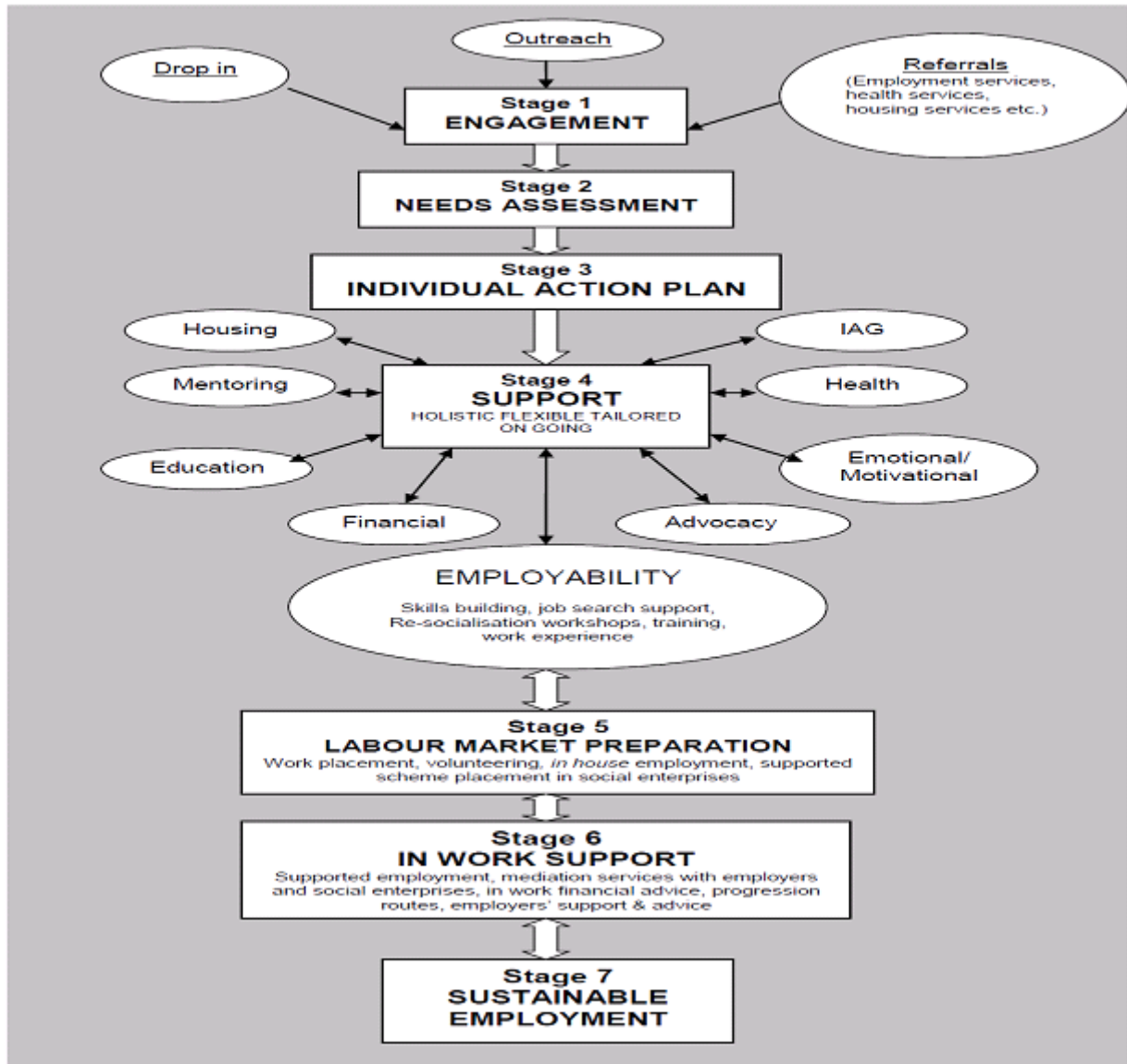
General themes underlying successful practices include:

- Tailoring services to individuals; and,
- Holistic service development to address the multiple causes of disadvantage.

This typically involves a multi-stage approach. The figure below illustrates the many stages which make up such an approach.

Figure 3. Employability: A Multi-Stage Approach

Stages of employability



Source: Centre for Economic and Social Inclusion (2007)

### 3. The Need to Explore a New Legal Form for Social Enterprise

In Korea, many social enterprises are for-profit enterprises, raising the issue of investing government money into private enterprises that may abandon their social purpose once government funding ceases. There are two possible means to address this:

- limiting funding support to social economy structures, that is further restricting the certification system so that only non-profits and co-operatives can be certified, thereby



providing reassurance that government funds will not be used to subsidise private business development; or,

- creating a new legal form with an asset lock or constraints on profit distribution, such as the Community Interest Companies (CICs) in the U.K., and establishing separate arrangements for funding each policy objective.

#### **Box 25. Best Practice: Community Interest Company Legislation (U.K.)**

The Community Interest Company (CIC) is a new legal form designed for socially responsible enterprises. The Government does not intend that CICs deliver essential public services such as education and/or health care. However CICs have “a clear role to play in complementing government services at the community level in areas such as childcare provision, community transport or leisure” (HM Treasury Budget Report, 2003).

The Companies (Audit, Investigations and Community Enterprise) Bill was enacted in July 2006. It established a new type of company, the community interest company, for use by social enterprises wishing to operate as companies. The CIC is intended to be used by non-profit-distributing enterprises providing benefit to a community. The CIC is subject to the general framework of company law, and is a new variant of existing forms of company. Many social enterprises incorporate as companies, either as a company limited by guarantee or a company limited by shares. The special characteristics of the CIC make it a particularly suitable vehicle for some types of social enterprise – essentially, those that wish to work for community benefit within the relative freedom of the non-charitable company form, but with a clear assurance of non-profit-distribution status.

The distinguishing features of the CIC are:

- in order to become a CIC, a company has to satisfy a community interest test, confirming that it will pursue purposes beneficial to the community and will not serve an unduly restricted group of beneficiaries. The test is whether a reasonable person could consider the CIC’s activities to benefit the community – it is therefore wider and simpler than the charitable test of public benefit;
- companies of a particular description are excluded from CIC status by regulations, such as political parties, companies controlled by political parties, and political campaigning organisations;
- CICs cannot have charitable status, even if their objects are entirely charitable. However, charities (and all other organisations except political parties) can establish CICs as subsidiaries;
- each CIC is required to produce an annual community interest company report containing key information relevant to CIC status. The report is placed on the public register of companies;
- CICs have an asset lock - they are prohibited from distributing any profits they make to their members;
- however, CICs that are limited by shares have the option of issuing dividend-paying “investor shares”, although the dividend payable on such shares is subject to a cap;
- when a CIC is wound up, its residual assets cannot be distributed to its members, as in the case of a normal company. Instead, they pass to another suitable organisation that has restrictions on the distribution of its profits, for example another CIC or a charity; and,
- the Regulator approves applications for CIC status, receives copies of the community interest company reports and monitors the requirements of CIC status, including compliance with the asset lock. He has close links with the Registrar of Companies. The key role of the Regulator is to maintain public confidence in the CIC model. The regulatory regime is “light touch” with a minimum necessary regulatory burden on CICs, but there are powers to investigate abuses of CIC status and to take action where necessary, for instance to remove directors, freeze assets or apply to the courts for a CIC to be wound up. The Regulator also sets the cap on CIC dividends.

As noted previously, many countries have passed legislation creating new hybrid enterprise forms. In some cases, this has widened the co-operative structure to include social or solidarity co-operatives to increase stakeholders from producers, workers and/or consumers to include citizens. In other cases, social enterprise legislation has been passed under different nomenclature, including social purpose businesses. Legislation has also created WISE in several countries, embedding their commitment to provide training and labour-market readiness. Because social enterprises can also be privately owned, legislation must also embed their objectives to distinguish them from traditional private enterprise, as in the case of the CICs in the U.K. This is now taking new forms. For example, a recent legal form is the *B Corporation* in the U.S. that is described as a new type of corporation that serves social and environmental needs (more information can be found at: [www.bcorporation.net/about](http://www.bcorporation.net/about)). It is a new ‘brand’. These corporations must meet a set of standards and amend their corporate governance documents to include the interests of stakeholders. They must effectively re-incorporate. This is an interesting example of how the concern raised regarding the certification of private enterprises in Korea may be mitigated by creating a new legal form.

Some examples of legislation passed in different countries are listed in the table below.

**Table 4. Selection of Legislation for Social Enterprise**

|                        |  |                          |
|------------------------|--|--------------------------|
| <b>Italy</b>           | Social co-operative                      | (1991 A+B)*              |
| <b>Italy</b>           | Social enterprise                        | 2005/6 (All)             |
| <b>Portugal</b>        | Social solidarity co-operative           | 1996/8 B)                |
| <b>Spain</b>           | Social initiative co-operative           | (1999 A+B)               |
| <b>Spain</b>           | Work integration enterprise              | 2007                     |
| <b>Greece</b>          | Limited liability social co-operative    | 1999 (B – mental health) |
| <b>France</b>          | Collective interest co-operative society | 2002 (A)                 |
| <b>Lithuania</b>       | Social enterprise                        | 2004 (All)               |
| <b>Poland</b>          | Social co-operative                      | 2006 (B)                 |
| <b>Belgium</b>         | Social finality enterprise               | 1996 (All)               |
| <b>Finland</b>         | Social enterprise                        | 2004 (B)                 |
| <b>U.K.</b>            | Community Interest Company               | 2005 (All)               |
| <b>Quebec (Canada)</b> | Solidarity co-operative                  | 1997 (All)               |
| <b>Quebec (Canada)</b> | Work integration enterprise              | 1998 (All)               |
| <b>Korea</b>           | Social Enterprise Promotion Act          | 2007                     |

\* A = providing social services; B = work integration

Source: adapted from Spear (2009)

#### **4. How to Build Capacity**

Many new social economy organisations and social enterprises are young and weak. The Korean Basic Plan for Social Enterprise Support 2008-12 has been formulated to address this issue. The aspirations of this plan are impressive and comprehensive, but the implementation may face challenges of co-ordination and funding. As a comparative reference, the evaluation of the U.K.’s social enterprise strategy revealed a number of difficulties: ensuring the co-ordination of strategy across government departments (especially for procurement); ensuring social cohesion is fully addressed (a challenging objective); ensuring that business support (braided or social enterprise specific) is fully functional; and, that finance (for social investment) is accessible.

Thus, systems for the evaluation of such plans/programmes may improve outcomes and there may be additional best practice in Europe to draw upon.

### ***5. Proximity Services Embedded in the Community***

Social enterprises typically engage in a wide range of local community services, ranging from childcare, homecare, services to the elderly and people with disabilities, and social housing initiatives. *While much of the Korean social enterprise strategy is oriented towards the community level, the proximity dimension of such strategy is not developed. Good links between the social enterprise and different stakeholders in the community improve the social value of such initiatives – via user involvement, community stakeholders, volunteers, etc..* Developing this perspective could strengthen social cohesion. As noted earlier, social capital is difficult to build in poor communities for numerous reasons, including isolation and absence of local employment that take people out of their communities.

One important strategy for combating social exclusion in local communities (that has been used by community enterprise in the U.S. and the U.K.) is to address the issue of how public contracts are designed to be more socially inclusive. The aim is to include community benefits, such as specifically targeted recruitment and training within public contracts. This could apply, for example, to contracts to maintain and improve housing and make environmental improvements in deprived communities, so that local disadvantaged unemployed workers have opportunities to take part in improving their own local areas. Positive discrimination in favour of local people is not usually acceptable, but ensuring open and equal access to opportunities is. Thus, contracts can specify employment placement and training opportunities, and require that local agencies are informed about such opportunities and target disadvantaged groups (but not by specified localities). In addition, voluntary agreements with contractors to support local disadvantaged are legitimate but not legally enforceable.

## RECOMMENDATIONS

This report has provided several proposals to increase policy effectiveness. These proposals emerge from the analysis of the current policy framework adopted in Korea to address poverty, unemployment and the broad socio-economic conditions that lead to social exclusion for many people. They also draw on international experiences that can assist in a review of current policy measures. In these concluding remarks, the OECD team presents these and additional recommendations to enhance the current policies for social inclusion adopted in Korea.

### Broad Recommendations

**1. It is recommended that government consider the need to work across boundaries and adopt a more organic or systemic approach to social inclusion, in contrast with the current narrow focus on social enterprise.** To that effect, the OECD strongly suggests *institutionalising the horizontal and multi-stakeholder approach* that gave rise to the current social enterprise policy measures within *a new and hybrid institutional setting* within government. The U.K. and Quebec, for example, demonstrate the advantage of such *institutional innovation for government* and for the beneficiaries of the policy measures developed in these innovative policy settings. The effectiveness of social policy is limited in Korea by the current division between the Ministry of Health and Welfare and the Ministry of Labour, for example. Working *horizontally* and with stakeholders (intermediaries identified in this report) will increase policy capacity and effectiveness.

**2. It is recommended that the Korean government engage in process-based evaluation at this time to review current policy measures and begin to develop a more coherent policy framework.** The concern that *results-based evaluation* will dominate, is raised in this report. Negative or disappointing results may not be fully understood if the social enterprises served by current measures are unable to achieve their objectives because of the limitations set by current policy measures. Moreover, in the current policy framework, the certification process may discriminate against new and more fragile initiatives in favour of established organisations/enterprises to reduce the risk of policy failure. The OECD team recommends *ongoing evaluation of policy measures* in contrast to ex-post assessment, that is more static, time-bound and in a worst case scenario, too late.

**3. An increased recognition of social enterprises that produce both goods and services is recommended.** At the moment, social enterprises performing services are privileged by the existing policy framework, even though it includes both. Recognising the potential for social enterprises to emerge in all sectors is important to integrate their activities into socio-economic development strategies for local communities. This *link to strategic local development strategies* is missing in the current focus on the enterprises individually and on those engaged primarily in the production of services. It also contributes to an image of social enterprise that does not

recognise it as an *alternative business form* complementary to the private sector that can compete in the market, meeting broader socio-economic or triple-bottom-line objectives. Although several sectors of activity are identified in the policy framework for the promotion of social enterprise, enterprises producing services are more prominent. And they are often unable to compete in the market, as they are obliged to under the current conditions. This presents a paradox since those social enterprises that produce goods and might more easily meet this objective, are given insufficient attention at this time.

**4. This report has strongly urged the need to integrate social enterprise promotion with the larger social economy.** That said, there are specific issues that concern the limitations placed on co-operatives and non-profit organisations that must be addressed. Among those is the need for new legislation permitting trading co-operatives to serve non-members. The current limitations placed on these co-operatives reduce their capacity to meet the needs of a larger population and to gain access to markets. In the case of medical co-operatives, for example, the *externalities* of such legislation for government are significant. By permitting greater access to much needed services that medical co-operatives provide and their commitment to preventative approaches to health care, for example, the cost of health care provision for government will decline.

Support must also be extended to build alliances among younger and weaker co-operatives. As isolated social enterprises, they are vulnerable to failure without this support. Likewise, capacity building measures are required for non-profit organisations and new foundations.

**5. Policy effectiveness will increase if government works collaboratively with social economy intermediaries that are able to communicate the needs of the many sectors in the social economy, including new social enterprises.** The Work Together Foundation, for example, is an important intermediary that collaborates with the growing constellation of social enterprises, social economy actors and their representative networks. As well, they have developed extensive research and policy capacity that can be most useful for government if it adopts a more *flexible, horizontal and multi-sectoral approach*. The importance of the *co-construction of policy*, is reminded here, the benefits of which have been pointed out in this report with reference to best practices in other countries and regions, not the least of which are *lower transactions costs* for government better able to identify the needs of the sectors and enterprises it will serve.

6. Currently, social enterprises are certified by the Ministry of Labour. **It is proposed that an independent legislative system for social enterprise (as there is for private companies, non-profit organisations and co-operatives) should be created, with perhaps a separate certification system for administration of subsidies.** As well, the Korean government could consider creating a new legal form with an asset lock or constraints on profit distribution such as the CICs, in the U.K., to reduce the possibility of “free riders” among private companies that can receive subsidies under the current programme without any obligation to pursue social objectives once the period of subsidisation terminates.

7. This report raised the concern that the current promotion of social enterprise imposes the creation of permanent employment and suggests moving to a *transitional employment system*, as is the case in many countries. As well, it suggests differentiating between different *capabilities* to distinguish between disabled and low skill workers requiring training. In the case of the former,

permanent employment is necessary to provide productive work opportunities for those otherwise unable to participate actively in the labour force. In the case of the latter, the social enterprise becomes a WISE and provides training opportunities to increase successful participation in the labour force. These workers move on. The current approach in Korea conflates both types of workers, puts excessive pressure on social enterprises to become financially autonomous, provide essential support and training to its employees and create permanent jobs. **It is recommended that the requirement for social enterprises to develop permanent employment be reconsidered in a review of the policy measures in place.**

As stated in this report, this also calls to question the manner in which funding is allocated to social enterprises. As the end of first phase of this programme approaches, this is an important opportunity to *reconsider the funding formula for social enterprises*, from a “one-size-fits-all approach” to an approach that distinguishes the specific needs of social enterprises adapted for the disabled from those that offer training and transitional employment, as outlined above. International experiences confirm the effectiveness of differentiated forms of funding, both in terms of amount and duration. As the OECD team has pointed out, recurrent funding for the services performed by these enterprises, does not imply dependency. These are *contracts for service* between government and social enterprises providing essential employment and integration services. For government, this is an investment in the public interest and not a subsidy as it is currently understood. This recommendation will be raised again in a broader context to include all social enterprises, not only those employing the disadvantaged.

In the case of transitional work integration social enterprises links have to also be established with coherent and effective employment and placement services. As noted in this report, transitional work integration social enterprises are more effective when (a) they are *customised* and *holistic* to address the *multiple causes of disadvantage*; (b) they provide support service in *multiple stages*; and (c) when these enterprises are conceived and supported in *partnership with government, the social economy and the private sector*. This also includes the development of more individualised programmes such as an educational plan, matching the individual with the social enterprise in which he/she will be employed, management of administrative procedures, mentoring the individual once at work and in the final assessment of outcomes. While social enterprises themselves are committed to providing many of these services, they are not systematised or enabled by the current policy measures.

**8. To increase the capacity for social enterprises to achieve their objectives and develop into sustainable enterprises, better links between national, regional and local governments are required.** The current policy framework is highly centralised. Much as the central government will benefit from the recommendations for greater horizontality, flexibility and collaboration with intermediaries to engage in a process of co-construction of policy, this has to occur at regional and local levels as well. What is referred to as “recombinant linkages” suggests that policy effectiveness increases significantly with a dynamic process of horizontal and vertical linkages. For government, the gains of such co-ordinated policy have been outlined in this report; for social enterprises, working with local government not only provides support, but helps integrate these enterprises into local development priorities and needs. *This is a critical step to move to a collaborative and inclusive approach.* The 2008-2012 Plan identifies the need to work more closely with local government. It is recommended that this be given priority.

9. Performance evaluation measures for social enterprises are needed, as outlined in this report. This need was identified during the study visit by the OECD team in Korea. Reference was made to the social return on investment (SROI) evaluation tool. The OECD team recommends that both government and those working with social enterprises (The Work Together Foundation, for example) examine SROI and the various evaluation and measurement tools that have emerged in recent years in other parts of the world, especially in the United States. This is a critical step to capture the complex and hybrid objectives set by/for social enterprises. As this report has also pointed out, for government to better evaluate its own actions to support social enterprise (and the social economy more broadly), it has to apply a similar process of evaluation. This is especially true in the context of this new policy framework and the subsidies provided to social enterprises. **It is recommended that an SROI approach also be applied to government, to capture the social returns to government as it “invests” in social enterprises.** Social enterprises internalise social costs, thereby reducing the fiscal burden of government. Moreover, the positive externalities produced by social enterprises, contributes to well-being. In a simple cost-benefit framework that applies this logic to the engagement of government in this initiative, the benefits far outweigh the costs. This should be sufficient reason for government to explore broader and longer term support, on a scale that recognises the range of capacity of social enterprises in different sectors to achieve financial autonomy and provide its support accordingly.

### Specific Recommendations

- Building public awareness of social enterprises and the social economy.
- Developing enabling financial tools.
  - International experiences increasingly confirm the need to develop a diversity of financial instruments/products to meet the diverse needs of social enterprises. These include loan finance and innovative equity or patient capital. The current emphasis on micro-credit is too limited.
  - Research must be conducted on financial innovation as it exists in other countries and regions.
  - The growing interest in *Socially Responsible Investment* is a potential source of capital for social enterprise should be explored.
- Developing new accounting practices.
  - This conforms to the need for new performance evaluation measures (see recommendation 9 above). A similar approach has to be applied to accounting practices that are not able to effectively evaluate the viability of social enterprises. Practices of *social accounting* are emerging in North America, for example, that are important examples of how this might be constructed in Korea.
- Creating better links with the private sector.
  - Private companies need to be better informed about social enterprise so that they are

not seen as a source of unfair competition because of government support for their activities.

- Private companies can use their *Corporate Social Responsibility* engagement to integrate social enterprise in corporate supply chains.
- Developing markets for social enterprises.
  - As noted in this report, there are several means to increase access to markets for social enterprises. These include strategies adopted by the enterprises themselves and by government (local and national).
  - The social enterprises themselves can:
    - through social enterprise networks, develop purchasing portals.
    - through social enterprise networks, develop portals to promote inter-social enterprise purchases and sales (business to business strategies).
    - hold social enterprise fairs.
    - develop campaigns associated with “ethical consumption”.
  - Government can:
    - create public markets or procurement policies for social enterprises.
    - create protected markets by providing the space and facilities to social enterprises.
    - through the current use of voucher systems, develop exclusive markets for social enterprises in certain sectors.
- Knowledge Mobilisation:
  - Institutionalising research partnerships with universities on social enterprises and the social economy.
  - Government can provide the infrastructure and funding for such partnerships.
  - The benefit to government outweighs the cost as such partnerships provide much needed research on social enterprises and the social economy that will increase policy effectiveness.



## APPENDIX ONE: KOREAN LABOUR MARKET POLICY

The labour market policy landscape includes several programmes that are summarised below.

### *Active Labour Market Policies*

Korea spends less on active labour market strategies as a percentage of GDP than other OECD countries. The total spent on these programs in Korea is about one-third of the OECD average (2005/6). The Public Employment Service profiles job-seekers according to their distance from the labour market:

- *Group A Jobseekers* are job-ready and provided with job information to facilitate independent job search.
- *Group B Jobseekers* have insufficient job skills or are unemployed for more than two months and are provided with job training opportunities or group sessions for enhancing job-search skills, together with placement assistance.
- *Group C Jobseekers* lack both job skills and willingness to work or are unemployed for more than six months and are provided with intensive employment services, that include an intensive individual interview, group counselling sessions for the long-term unemployed, job training, and job-interview techniques.

A local employment network compiles information on local vacancies and creates local partnerships to facilitate placements. Some outsourcing for vulnerable unemployed groups has been piloted with private placement service agencies.

### *The Public Works Programme (1998-2004)*

The Employment Insurance System, implemented in 1995, could not cope with the rapid growth of unemployment in 1997, which required drastic action. The public works programme, 1998-2004, was designed to provide temporary work for the unemployed who could not access unemployment insurance for a period of three months. Projects were for infrastructure works, public service and maintenance and information technology. These public work projects were co-ordinated by the Ministry of Public Administration and Security, and implemented by local government.

### *National Basic Livelihood Security System and Indicators (1999)*

In 1999, the National Basic Livelihood Security (NBLS) Act was passed, as part of Kim Dae-Jung's labour market reforms for "productive welfare" with the aim of moving beyond welfare dependency to welfare-to-work schemes. It provided income support for the poor (those with income below the minimum cost of living, and with no one to support them<sup>8</sup>). This programme was co-ordinated by the Ministry of Health and Welfare, and implemented via local government. The budget for the NBLS rose from KRW 1.6m in 2003 to KRW 2.9m in 2008, and was used

mainly for income support (subsistence) and housing support.

**Table 5. National Basic Livelihood Security System**

| <b>Number of beneficiaries/<br/>Year</b> | <b>Beneficiary households</b> | <b>Beneficiaries<br/>(thousand persons)</b> | <b>Total population<br/>(thousand persons)</b> | <b>Beneficiaries out of<br/>total population<br/>(%)</b> |
|--|-------------------------------|---|--|--|
| <b>2003</b>                              | 717,861                       | 1,374                                       | 47,859   | 2.87   |
| <b>2004</b>                              | 753,681                       | 1,424                                       | 48,039   | 2.96   |
| <b>2005</b>                              | 809,745                       | 1,513                                       | 48,782   | 3.10   |
| <b>2006</b>                              | 831,692                       | 1,535                                       | 48,991   | 3.13   |
| <b>2007</b>                              | 852,420                       | 1,550                                       | 49,269   | 3.15   |

As S. Kim (2009) argues, these beneficiaries represent only a portion of the population below the poverty line. Ryu estimated that in 2005, eight million Koreans lived below the poverty line, with only 1.4 million protected by the NBLs (2005, in Park, 2008).

Since 2002, the annual average number of livelihood assistance (cash benefit) recipients increased from 370,000 in 1997 to 1.55 million, while the benefit levels also increased considerably. However, these recipients still represent only three percent of the total population (OECD, 2004). Moreover, only six percent or about 100,000 NBLs recipients are registered as unemployed. As such, approximately 16% of the unemployed are covered by NBLs in addition to the 27% who are covered by EIS. Therefore, a majority of the unemployed receive neither EIS nor NBLs payments. According to the OECD, these people survive on access to family income, assets, student grants or other income sources, including undeclared earnings (Grubb *et al.*, 2007).

Most recipients of NBLs support were regarded as unable to work (see diagram below). Those who could work were categorised as *conditional beneficiaries*, and were required to take part in self-support programmes run by various civil society organisations (CSOs). Public employment services provided an alternative track for those who could more easily be employed through skills training, and placement services.

Figure 4. Welfare to Work in Korea\*

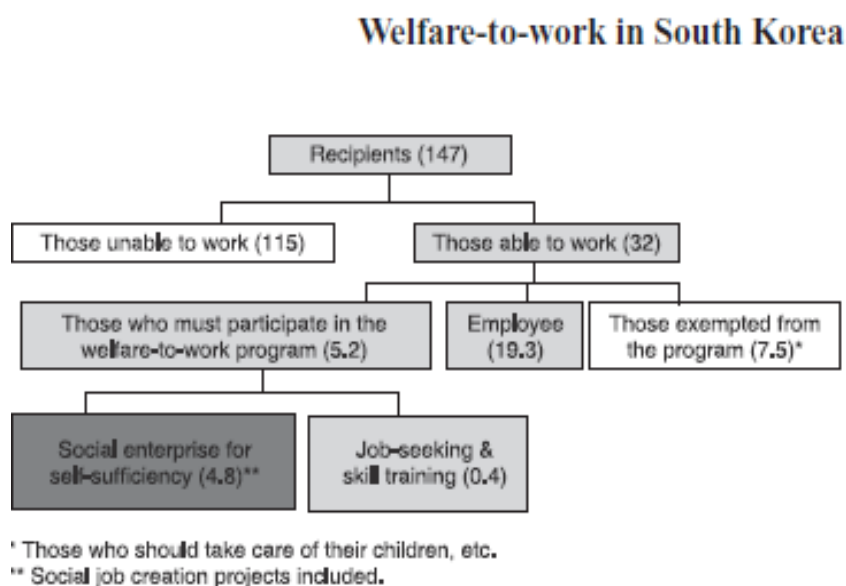


Figure 1. The number of recipients in the Korean welfare-to-work system.

Source: Lee and Lee (2002: 41). Modification added.

\* Terminology in Figure: social enterprise for self-sufficiency = “self support communities or projects”; Numbers refer to 1000s; 115,000 out of 147,000 (78%) are considered unable to work; and only 5,200 (3.5%) are considered suitable for work integration initiatives.

Source: Hahn and McCabe (2006)

### ***Self-Support Programme (and Self Support<sup>9</sup> Promotion Agencies)***

A major weakness in the poverty reduction policy is that the National Basic Livelihood Security system has created a high level of welfare-dependency among its beneficiaries. The introduction of a “self-support” system, a form of in-work benefits to address this problem, lacked linkages to other programmes associated with employment policy. The absence of policy co-ordination is a barrier to policy effectiveness. As noted earlier, the absence of inter-ministerial horizontal policy environments not only reduces the ability of programmes and policies to meet their objectives, but involves potential duplication in some cases. Information asymmetry between ministries is a problem that must be addressed, especially in the context of the high expectations associated with the adoption of social enterprise promotion policies located in the Ministry of Labour. The costs of this asymmetry are high if social enterprise is conceived within the framework of welfare reform and job creation and not addressed in a horizontal policy environment. Not only does this risk poor outcomes, it contributes to an inefficient distribution of public resources.

The Ministry of Health and Social Welfare was a key organisation in supporting the self-support programme that drew on the NBLIS system to develop work integration projects for

welfare beneficiaries. CSOs created self-support promotion agencies or self-support sponsoring organisations to develop projects and organisations or “communities”. Projects were mainly in five areas: nursing, cleaning, home repair, waste recycling, and food waste recycling. In 2007, almost 15,000 people were supported, with 242 self-support promotion agencies. Although such projects remain economically weak and dependent on state finance, they provided some basis for work integration, though only between 5% and 10% have moved onto permanent jobs (Grubb *et al.*, 2007). These “self-support communities and projects” can be seen as forerunners of social enterprises.

**Figure 5. Participants in Self-Support Programmes (as of December 2004)**

|                                    | Municipalities |              |                          |                   |             |             |                            |  | PES                    |
|------------------------------------|----------------|--------------|--------------------------|-------------------|-------------|-------------|----------------------------|--|------------------------|
|                                    | Total (a+b)    | Subtotal (a) | Type of scheme           |                   |             |             |                            | Community service, social adaptation program | Employment Service (b) |
|                                    |                |              | Business start-ups, etc. | Market-entry jobs | Social jobs | Internships | Maintenance of work habits |  |                        |
| Participants in an average quarter | 57 990         | 54 895       | 3 430                    | 5 480             | 13 854      | 287         | 28 611                     | 3 233  | 3 095                  |
| Total annual participants          | 112 771        | 107 393      | 6 848                    | 11 714            | 25 403      | 521         | 56 229                     | 6 678  | 5 378                  |

Source: Ministry of Health and Welfare.

The role played by CSOs in the self-support programmes arose from their growing importance in campaigning for and supporting the disadvantaged. A key moment was the formation of the Committee of the National Movement for Overcoming Unemployment (CNMOU) in 1998<sup>10</sup> by civil society organisations, which campaigned for public funds to help the unemployed. As Park (2008) argues, this marked a shift from the government’s traditional reliance on families and corporations to third sector organisations, due partly to the more active role played by civil society since the democratisation phase and during the unemployment crisis.

One of the weaknesses of this shift to developing the role of the third sector is that CSOs have only recently emerged as key actors in this field of work integration (and welfare services), and so far lack the capacity and experience to move beyond their high dependency on state support.

### ***Social Workplace Programme (2003)***

Alongside these changing labour market policy measures, there has been an increasing concern to improve welfare service provision, due to an ageing population and changes in the labour market, such as the increasing participation of women in the workforce. The Social Workplace Programme, created in 2003 and seen as replacing the public works programme, sought to overcome weaknesses of the traditional male-oriented employment-based social insurance policies. This programme gives subsidies (including for social insurance) to approved non-profit organisations to create jobs by providing social services for the disadvantaged either

unable to afford these services or excluded from government services provision. This refers especially to the elderly or disabled (Park, 2008). The objective of this programme is to reconcile job creation and social welfare objectives.

**Table 6. Trends in the Social Workplace Programme**

|                                | 2004   | 2005    | 2006    | 2007      | 2008      |
|--------------------------------|--------|---------|---------|-----------|-----------|
| <b>Budget (x 1million KRW)</b> | 78,700 | 146,200 | 678,209 | 1,294,519 | 1,574,920 |
| <b>Participants</b>            | 15,471 | 23,647  | 111,897 | 201,059   | 228,245   |

Source: H. Kim (2009)

Several ministries were involved in initiating this programme, including the Ministry of Health and Social Welfare and the Ministry of Labour that piloted the programme. The creation of this programme also represented a strategy to engage third sector organisations in job creation and welfare provision. While the emphasis is on subsidising labour costs for individuals and meeting social objectives, it was hoped that this programme would increase the sustainability of these organisations. The tension between an emphasis on job creation and increasing welfare service provision that characterised this policy initiative resulted in a shift in 2006 towards the latter. As Park (2008) argues, this was partly due to the inability of the programme to create long term jobs. There were also concerns about whether low paying jobs could, in fact, deliver the level of services required, and whether these services should only target low income communities or the middle class as well. And finally, it was not clear whether subsidies should be allocated to providers or to users of services.

In 2006, there was a re-evaluation of this programme by the Social Service Improvement Task Force under the Ministry of Planning and Budget that oversaw all projects from the various supporting Ministries. The programme was also renamed Social Service Work Programme in 2007, indicating a policy shift towards expanding welfare service provision. The preferred approach was through the market using a voucher system; but this highlighted the other policy challenge of creating sustainable employment for disadvantaged people. These events, policy shifts and mitigated results set the stage for the development of policy to promote social enterprise, which saw proposals for legislation by government and the opposition as early as December 2005.

This short review of the various programmes introduced to respond to unemployment and social service provision has marked the current support for social enterprise. The brief history provided in this report also reveals an ongoing tension between welfare provision and job creation as priorities. The attempts to address both these issues simultaneously has not succeeded for a number of reasons, not the least of which is the ministerial divisions that makes it difficult to implement a coherent policy that addresses both these issues under a common framework. The need for horizontal policy spaces is a recurrent theme of this report and a concern given that the current shift to promoting social enterprise may encounter the same difficulties. Despite a multi-stakeholder approach that gave rise to this new policy and appeal to civil society organisations to promote social enterprise, the initiative remains very top-down, bearing the legacy of a developmental state that has shaped policy design and implementation in Korea.

## APPENDIX 2: OECD LEED VISITS

| 11 May 2009   |   |   |
|---------------|---|---|
| Time          | Organisation to visit   | Remarks   |
| 10:30~        | Mr. Noh Daemyung, Korean Institute of Health & Social Affairs (KIHASA) ph: 380-8119<br>* Mr.Noh speaks French.                                      | Bulkwang-Dong, Seoul<br>(Taxi from President Hotel, about 15 min.)  |
| 14:00 ~ 16:00 | Social Enterprise Division, Ministry of Labor   | Kwachon City<br><br>(Taxi from President Hotel, about 30 min.)<br><br>* Lee Su ha(010-9569-1283)  |
| 16:00 ~ 16:30 | transfer  | Kwachon → Anyang(10 mins)   |
| 16:30 ~ 17:30 | Social Enterprise – Sejong<br><br>* target group: Disabled persons  | Anyang, Kyunggi Province<br><br>* Bang Dae jin(010-9065-9835)   |
| 12 May 2009   |   |   |
| Time          | Organisation to visit   | Remarks   |
| 10:00 ~ 13:00 | Supporting Agency for Social Enterprises<br>Co-work Foundation, Council for Social Enterprise<br>Social Enterprise- Dasomi(Caring service provide)r | Mapo, Seoul (10 mins from the Hotel by Taxi)<br><br>Three organisations are located in the same building.<br><br>* Lee Myung hee(011-9860-1026) |
| 13:00 ~ 14:00 | Lunch   |   |
| 14:00 ~ 14:30 | Transfer  |   |
| 14:30 ~ 15:30 | Social Enterprise- Noridan<br><br>(Culture/Art field)   | Yeoungdeungpo, Seoul<br><br>* An Suk hee(017-247-0839)  |
| 15:30 ~ 16:00 | transfer  |   |
| 16:00 ~ 17:30 | Social Enterprise- “Beautiful shop”<br><br>(Recycling shop)   | Jongno, Seoul<br><br>* Kim Dae ho(02-3767-1009-266)   |

| 13 May 2009   |   |  |
|---------------|---|--|
| Time          | Organisation to visit   | Remarks  |
| 10:00 ~ 12:00 | Hansalim corporation<br>* Yoon Hyung geun(010-4714-1683)  | Joonggu, Seoul   |
| 12:00 ~ 13:00 | Lunch   |  |
| 13:00 ~ 15:00 | transfer  | Seoul → Wonjoo (about 2 hrs)<br>* Small Van will be serviced.      |
| 15:00 ~ 18:00 | Social Enterprise- "Wonjoo Co-op"( Health field)<br>And Council for Co-op, Wonjoo City  | * Choi Hyuk jin(017-377-1922)                                      |
| 18:00 ~ 20:00 | Transfer  | Wonjoo → Seoul (about 2 hrs)                                       |
| 14 May 2009   |   |  |
| Time          | Organisation to visit   | Remarks  |
| 10:00 ~ 12:00 | Korea Labor Institute   | Yeoido, Seoul (15 mins from Hotel)<br>* Kim Hye won(010-2372-7393) |
| 12:00 ~ 13:00 | Lunch   |  |
| 16:00 ~ 17:30 | Social Enterprise- "e-Jang"<br>local development  | * Lim Kyung soo( 010-4844-6865)                                    |
| 17:30 ~ 20:30 | Transfer  | Seocheon → Seoul (about 3 hrs)                                     |
| 15 May 2009   |   |  |
| 10:00 ~ 13:00 | Seminar at Co-work Foundation<br>Free discussion on European and Korean social enterprises. Social Solidarity Bank, etc would join. | Mapo, Seoul<br>* Lee Myung hee(011-9860-1026)                      |

## GLOSSARY

**Charity:** An organisation, trust or foundation established to pursue philanthropic objectives and providing some kind of public benefit. Charities are not owned by anyone, and are governed by trustees who are required to pursue the purposes for which the charity was established. In many countries, charities have certain tax privileges.

**Civic Movement Organisation:** Refers to organisations engaged in collective action. In English-speaking countries, there has been an increasing call for civic engagement or civic renewal, for citizen-based or grassroots action in the public interest. In the United States, the Obama administration has adopted President Clinton's call for increased citizen/civic engagement. In the Korean context, these organisations refer to the democracy movements that emerged in the late 1980's to press for social justice and democracy. These organisations had a significant presence in Korea. Civic organisations work to deepen democracy by mobilising citizens to build civic capacity. The field of civic action is complex and is associated with civil society, citizen engagement, and so on. What is common to all of these is the mobilisation of citizens towards common goals.

**Civil society:** Civil society may be defined as a space or arena between households and the state, which affords possibilities of concerted action and social organisation. Thus, it encompasses all voluntary associations of citizens, whether politically motivated or active or not (although the term carries an implication of political consciousness and activity): business, labour, nongovernmental organisations, churches, special interest or purpose groups. These elements are the constituents of civil society, but none can individually be representative of it. Business is often excluded, although the OECD does include it, given that channels of communication between traditional organised business and labour and government are generally well established. Most frequently the term is used interchangeably with "NGOs" where the term "NGO" refers specifically to activist groups, although these are simply one category of civil society as a whole.

**Collective Enterprise:** A short hand term for collectively owned enterprise: co-operatives, mutuals, non-profits and foundations.

**Co-operative:** A co-operative is an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Examples of co-operatives in Europe can be traced back to the 19th century. The International Labour Organisation has suggested that co-operatives should be based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity and share the principles of: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and, concern for the community, which were identified by the International Co-operative Alliance in 1995. A co-operative includes one or more kinds of users or



stakeholders: 1) consumers who use the enterprise to acquire products or services (such as a retail co-operative, housing, healthcare or day-care co-operative); 2) producers (such as independent entrepreneurs, artisans, or farmers) who use the enterprise to process and market the goods or services they produced, or to buy products or services necessary to their professional activities; and 3) workers who use the enterprise to secure their employment and control their working conditions. Co-operatives operate democratically (one person, one vote) through two bodies (general meeting of the members or delegates, and the board of directors, which is composed of members elected at a general meeting). The delegate structure may be required to reflect the size of the organisation or the distance covered by the co-operative. The co-operative's start-up capital usually comes from co-operative shares purchased by members. Since 1980, special co-operatives, known as social co-operatives, have become more widespread in OECD member countries.

**Foundation(s):** Foundations are philanthropic organisations, organised and operated primarily as a permanent collection of endowed funds, the earnings of which are used for the long-term benefit of a defined geographical community or non-profit sector activity. Foundations operate as grant-making institutions, and also as providers of social, health and cultural services. It thus provides a significant link between the private and non-profit sectors, acting as a recipient of private capital and a funder of non-profit organisations. Foundations are tax-exempt, incorporated, not-for-profit, organisationally autonomous, and cannot be controlled directly or indirectly by government at any level, corporations, associations and their members, or individuals). Because they occupy a unique and central place in the non-profit sector, the development of foundations will strongly affect the future of the sector as a whole.

**Mutual organisations/societies:** A mutual organisation is an organisation owned and managed by its members and that serves the interests of its members. Mutual organisations can take the form of self-help groups, friendly societies and co-operatives. Mutual organisations exclude shareholding as they bring together members who seek to provide a shared service from which they all benefit. They are widely represented in the insurance sector.

**Non-governmental Organisation (NGO):** An NGO is a legally constituted organisation with no direct representation or participation by government. Even if many NGOs receive funding from government, they retain their "non-government" identity because of their autonomy. Today, there are numerous national and international NGOs with an increased role in poverty reduction, social inclusion, environmental protection, social justice, to name a few. Many NGOs rely also on private contributions in the form of donations. NGOs include many civil society organisations directly and/or indirectly. The work of NGOs has increased substantially in the last two decades as has their fragility given their reliance on public funding, in most cases. Most NGOs are organisationally and legally the same as non-profit organisations (NPOs), although a small minority may have not-just-for-profit corporate structures.

**Non-profit sector:** The best known definition, while not commonly shared, particularly in European countries, is undoubtedly that supplied by the Johns Hopkins University in Baltimore ([www.jhu.edu/~cnp/](http://www.jhu.edu/~cnp/)). According to this definition, the sector includes organisations which are voluntary, formal, private, self-governing and which do not distribute profits, such as hospitals, universities, social clubs, professional organisations, day-care centres, environmental groups,

family counselling agencies, sports clubs, job training centres, human rights organisations and others. In fact, entities belonging to the non-profit sector can vary from country to country according to national history and tradition. The term non-profit, born in the USA, refers mainly to the absence of profit distribution. This is substantially different to the European approach of “social economy”, which includes co-operatives. However, this difference is less significant when investigated through empirical research. C. Borzaga and J. Defourny (*The Emergence of Social Enterprise*, 2001, Routledge, London) argue that the distribution of profits is in any case limited by internal and external regulations in co-operatives and mutual organisations in European countries.

**Social economy:** The term “social economy” first appeared at the beginning of the 19<sup>th</sup> century in France. It was, nevertheless, only at the beginning of the 20<sup>th</sup> century that it began to be employed to indicate various entities aimed at improving collective working conditions and individual lives. This concept is now also used by Anglo-Saxon countries to refer to the production of goods and services provided not solely by the non-profit sector, but also, in some cases, by private enterprises with shareholder agreements that force the majority of shareholders to agree to social objectives undertaken by the firm. Among the organisations belonging to the social economy, one can find associations, co-operatives, mutual organisations and foundations. This type of economy is essentially regulated by the stakeholder principle, which stands in stark contrast to the notion of shareholder capitalism. The “social economy” is a broader concept than the non-profit sector, as it is less strictly bound to the non-distributional constraint, according to which organisations cannot legally redistribute their surplus to their owners (see also “third sector”).

**Social enterprise:** An organisational form which has flourished in recent years, many definitions of social enterprise exist. Apart from academic definitions, and those elaborated by international organisations, which are built around general criteria, definitions used within countries are specific to the national understanding of the phenomenon of social enterprises. Increasingly countries are developing legal definition of social enterprises. Generally, this concept refers to any private activity conducted in the public interest, organised with an entrepreneurial strategy and whose main purpose is not the maximisation of profit, but the attainment of certain economic and social goals, and which, through the production of goods and services, brings innovative solutions to problems such as social exclusion and unemployment (see *Social Enterprises*, OECD, 1999). In this way, social enterprises combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole. Social enterprises are part of the thriving and growing collection of organisations that exist between the private and public sectors. They come in a variety of forms including employee owned businesses, credit unions, co-operatives, social co-operatives, development trusts, social firms, intermediate labour market organisations, community businesses, or charities’ trading arms. They mainly operate in two fields of activity: the training and integration into employment of persons excluded from the labour market, and the delivery of personal and welfare services.

**Solidarity economy:** The idea of the solidarity economy is mainly used in France and Canada (Quebec), and is also widespread in Latin America. It has different meanings according to the geographical context in which it is used: in the South American context, it mainly refers to fair trade and the popular economy, in Quebec it is linked to co-operatives and non-profit enterprises

as well as to community economic development (*mouvement économique communautaire*) and in Europe to solidarity initiatives, mainly, but not exclusively, in the proximity services. Sometimes the term is used in association with the term social economy (as in Quebec) and sometimes in opposition to it, notably where the social economy is seen as composed of established organisations, while the solidarity economy mainly refers to non-established citizens' initiatives aimed at experimenting with new paths of economic development. In the European context, examples such as the fair trade movement are developing inside the sector, together with innovative forms of financial/non monetary-exchanges based on reciprocity.

**Third sector:** The concept of “third sector” is often used as a synonym to the non-profit sector and, more recently, also to “social economy”, particularly in European literature. The term was chosen to reflect the idea that the sector assembles these otherwise disjointed entities, and that it sits between the public and private sectors and follows unique social goals and internal organisational rules. Its mode of financing is mixed, as it can seek both private and public funding. The idea of establishing a distinct “third sector” has given rise to many hefty debates, which have centred upon the danger of using the third sector as a residual sphere or “dumping ground” for those individuals excluded from the private and public sectors. To avoid the danger of social polarisation, the third sector should not merely be seen as an alternative route or juxtaposition to the public and private sectors, but as an interactive and reflexive component of economy and society. Others have argued that the boundaries of the third sector cannot be established with certainty, and for this controversial reason the European Commission preferred the use of the term “Third System”.

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## NOTES

- 1 The Ministry of Labour officially defines social services as “services that are socially provided to promote the welfare of individuals and society and improve people’s quality of life. They include social welfare services, such as child care and protection of children, the disabled or the elderly, health and medical services, such as patient caring and nursing, and educational, cultural and public administrative services, such as after-school activities, special education, etc.. Social services are characterised as non-marketability, collective consumption decision-making, and generality of financial commitment.”
- 2 This proportion is even close to 60% in the over 50 age group reflecting the managing practice of many Korean companies that force workers to retire at a relatively young age – between 50 and 55 for most of them. These workers receive a lump-sum when they leave, that is often used to launch a business as they cannot find a decent salaried job because of their age.
- 3 According to a poverty line defined as 60% of the median income, more than 20% of the Korean population was considered as poor in 2005 whereas it was less than 16% in 2002 (OECD, 2008).
- 4 Please note: The term “self support” is used instead of “self-sufficiency” later in this document. This is to standardise on the variety of terms that have been used by Korean authors writing in English. It is also the term used in Ministry of Labour documents.
- 5 Data from Feb 2009 specifies 7,500 employed, 38.5 per social enterprise, with 58.5% disadvantaged (35% disabled, 31% low income, 27% elderly).
- 6 This model is based on the view that many social enterprises are embedded in their community providing proximity services; they want to stay with their local roots and participative characteristics rather than grow and compete in other adjacent areas. Thus a strategy of “strawberry field” spin-offs could be followed, where the original social enterprise provides a model and some support for the replication of similar but independent entities starting up in adjacent areas (in the same way that a strawberry plant spreads). This model might be formalised into some sort of franchise; or it could be supported by the central services of a consortium, but close links with users and the community need to be retained.
- 7 As an indicator of the ambitious potential of work integration of the disadvantaged, prior to the recent financial crisis, the U.K. Government commissioned a study to investigate



how it could raise the employment rate by bringing three million people who were disadvantaged and difficult to employ back into the labour market (see Freud (2007)).

- 8 There are approximately 1.6 million people who earn income less than the Minimum Cost of Living but are not receiving assistance because of the criteria of “Person Liable for Supporting” (Responses to the Office of the United Nation High Commissioner for Human Rights, 2008).
- 9 In the literature self support initiatives are variously termed: self-sufficiency initiatives, self-help initiatives, self-reliance initiatives; but the Korean term seems to be: *Jawhal-saeop*, and similarly for the self-support promotion agencies which are also referred to as self-support promotion centres, and self-support assistance centres, and self-support sponsoring organisations, the Korean term is *Jawhal-jiwon*. Although Jang Wonbong notes these changed into self-support guardian institutes in 2000 (*Jawhal-hugyun-gigwan*), for simplicity the term self-support promotion agencies will be used in this report.
- 10 This committee transformed itself into ‘the Korea Foundation for Working Together’ in 2003.