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Social Economy in South Korea¹

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Abstract

In South Korea, social economy was one of the 100 highly prioritized policy objectives of the during Moon Jae-in administration from May 2017 to 9th May 2022. As a result, a social economy secretary was established, a social economy expert committee under the Presidential Jobs Committee was formed, and a plan to revitalize the social economy was established. Based on this, various policies to support social economy enterprises were established and implemented by both the central and many local governments. At the same time, many players in the sector have made efforts to enact the bill for the Framework Act on Social Economy (FASE) which is still pending before the National Assembly. In this article, we introduce those legal and institutional frameworks and public policies that led the growth and development of the social economy in South Korea, and examine their achievements and limitations, focusing on the essential components of policy ecosystems for the social economy enabling social economic enterprises to thrive over time, that is, the legal and institutional frameworks for the social economy, social finance and preferential public procurement, and education and training to foster social entrepreneurship and raise public awareness of the social economy. Various public policy measures for the social economy have some achievements such as its quantitative growth and more integrated and coherent ecosystems for it as well as challenges such as integrated legal framework, public awareness, and measurement of social value and statistics of social economy.

Keywords: Social economy; Policy system; Policy measure; South Korea

Expanded abstract

Social Economy in South Korea



1. Introduction

In 2017, Moon Jae-in government proposed officially revitalizing the social economy as a national task which was the first case in terms of the level of the South Korean central government policy. Of course, various policies and measurements have been prepared even before, but the Moon administration made the revitalization of the social economy a major 26th national task among 100 tasks even though the bill for the Framework Act on Social Economy is still pending before the National Assembly.

The social economy has grown significantly over the past two decades in the Republic of Korea. In addition to existing social economy enterprises (eight different types of cooperatives under their own specific acts), new types of social economy enterprises (SEEs), such as general co-operatives, social enterprises, community enterprises, self-reliance enterprises and social ventures, have emerged in order to meet the new social demands including job creation and social inclusion for the disadvantaged, social services expansion and new solutions for unsolved social problems emerging in society, and the number of these enterprises has increased significantly. With the emergence of these new types of SEEs, legal and institutional frameworks have been established to regulate and support them, various public policies have been designed and implemented to foster them, and support systems usually through intermediary organizations have been created to help them establish and operate. In recent years, the policy paradigm for them has shifted from direct financial support for individual enterprises to building conducive policy ecosystems in which they can continue to grow and develop. For that purpose, more coherent and integrated policy measures have been developed at different levels of government.

In terms of establishing the legal and institutional frameworks as well as developing public policies both for the social economy as a whole and for each type of SEEs, South Korea has become a good example not only for the central government but also for local governments. In this article, we introduce those legal and institutional frameworks and public policies that led the growth and development of the social economy in South Korea and examine their achievements and limitations. In order for the social economy to meet its full potential, policy makers should understand the characteristics of the social economy and build ecosystems in which SEEs can flourish. Such ecosystems consist of five main components (OECD/EU, 2017): legal and institutional frameworks to bring clarity, visibility and recognition by defining the nature, mission and activities of SEEs; access to finance ranging from subsidies and debt instruments to equity, patient and impact investment to meet the needs of SEEs; access to markets particularly through preferential public procurement for the products and services of SEEs; business support structures to provide for training, coaching, or consultancy services for building capacities; and education and skills to foster social entrepreneurship and develop new solutions for unresolved social challenges.

Alongside these five components, UNRISD (2019) considers research, data collection and knowledge transfer as another important component of such ecosystems. In particular, survey and statistics are essential for effective policy design and implementation based on evidence



as well as for social and political recognition of the social economy which enhances the legitimacy of policy support for it (Bouchard and Rousselière, 2015). In the process of developing and establishing those ecosystems, the cooperative partnership between social economy actors and governments is also essential, because open dialogue between them leads to more coherent and strategic approaches, allowing the social economy to realize its full potential (Mendell and Alain, 2013).

Based on Yoon and Lee (2020) and the framework by OECD/EU (2017), we examine the legal and institutional frameworks and public policies in South Korea, mainly focusing on those essential components conducive to an ecosystem enabling SEEs to thrive over time.

2. Social Economy in the Republic of Korea Today

2.1. Concept and scope

Practices and relations that could have been characterized as those of a social economy had existed long before the modern market system arose in Korea. It was only toward the end of the 1990s, however, that policy makers began to use the term “social economy” to refer to a wide variety of activities aimed at social problems, such as unemployment and poverty, left unsolved by either the state or the market (UNRISD, 2018). However, there is not yet a universally accepted definition of the social economy, and its exact scope remains a subject of controversy in Korea.

As the purpose of this study is to explore public policy measures supporting the social economy in South Korea, we may conceptualize the social economy in reference to the existing statutes. The bill for the Framework Act on Social Economy (FASE), a legislative draft still pending before the National Assembly and aspiring to provide a comprehensive legislative basis for the entire social economy across Korea, defines it as comprising “all economic activities undertaken by social economy organizations on the basis of solidarity and cooperation among members; independent, autonomous, and democratic governance; and with the purposes of reducing polarization, promoting local economies, creating decent jobs, providing social services, and promoting social integration and the common good.” The same bill also defines a SEEs as “a business organization that pursues social values and engages in the purchase, production, distribution, and consumption of goods and services necessary to that end.” Recent policy initiatives by both the national and local governments in Korea have been designed and implemented based on legal framework such as general cooperatives under Framework Act on Cooperatives (FAC) in 2012, social enterprises under Social Enterprise Promotion Act (SEPA) in 2007, community business enterprises under Community Business Scheme in 2010, and self-sufficiency enterprises under National Basic Livelihood Security Act (1999).

2.2. Main types of SEEs today



Now looking at the four major types of SEEs that are the main policy targets mentioned above, as of the end of 2020, it was estimated that there were 24,920 enterprises.

Table 1. The Number of entities of the Four Major Types of SEEs in Korea (2020)

Type	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
Co-operatives	10,640	12,540	14,550	16,869	19,429
Social enterprises	1,713	1,877	2,122	2,435	2,777
Community business enterprises	1,377	1,442	1,514	1,556	1,652
Self-sufficiency enterprises	1,186	1,092	1,211	1,176	1,062
Total	14,916	16,951 (13.6%↑)	19,397 (14.4%↑)	22,036 (13.6%↑)	24,920 (13.8%↑)

Source: Interdepartmental Report of the Government of Republic of Korea (2020)

2.2.1. Cooperatives

Cooperatives make up the largest share of the Korean social economy today. Cooperatives are categorized differently under different statutes, including the FAC of 2012 and eight other statutes. The FAC has drastically eased the establishment of cooperatives, allowing any group of five or more members to operate cooperatives in all industries except for finance and insurances, irrespective of the amounts of initial capital they are able to invest. As a result, workers' cooperatives, multiple-stakeholder cooperatives, and social cooperatives have cropped up, in addition to producers and consumers' cooperatives that had already existed under special statutes.

2.2.2. Social enterprises

Social enterprises refer to organizations that have been created under the Social Enterprise Promotion Act (SEPA), enacted and effectuated in 2007. The statute defines a social enterprise as an enterprise "that pursues a social objective aimed at enhancing the quality of life of community residents by providing vulnerable social groups with social services or job opportunities or by contributing to the communities while conducting its business activities, such as the manufacturing or sale of goods and services." Depending on the main objective or focus of their activities, these enterprises can be divided into three types: those providing jobs or services for the disadvantaged; those supporting local communities; and those developing creative, innovative solutions to local problems (Ministry of Employment and Labour [MOEL], 2019).

In order to qualify and obtain certification accordingly, a social enterprise must meet a set of criteria. First, it must assume the form of organization prescribed by Presidential Decree, such as a corporation, an association, or a non-profit organization. Second, it must hire paid workers for business activities, such as the production and distribution of goods and services. It must pursue social objectives, feature a decision-making process open to the participation of diverse stakeholders, and generate operating income that is at least 50 percent of what it spends as



the labour cost and expenses. When profits occur, at least two-thirds of them must be spent on social objectives in the same given fiscal year. Finally, the enterprise must have bylaws or an equivalent that defines its objectives and business activities, decision-making structure and process, and policy on the distribution and reinvestment of gains (Korea Social Enterprise Promotion Agency [KoSEA], 2019a). The criteria for certification imposed under the SEPA, however, have been criticized for being too stringent and for neglecting various types of enterprises whose main goals are other than creating jobs for the disadvantaged. Attempts are thus being made to broaden the scope of social enterprises and relax its criteria for certification.

2.2.3. Community business enterprises

Community enterprises are legally based on the Urban Regeneration and Assistance Act of 2013, which defines community enterprises as “a company operated by local residents or organizations to improve living environment, revitalize local community, and create income and jobs by utilizing various resources, such as manpower, native habitat, culture, and natural resources, etc. of the relevant area.” To qualify as a community enterprise, an organization must be community-oriented, serve public needs, maintain sufficient business activities, and allow locals to participate (Ministry of the Interior and Safety [MOIS], 2019).

2.2.4. Self-sufficiency enterprises

The Asian Financial Crisis of the late 1990s wreaked havoc on the Korean economy, leading to massive layoffs and soaring unemployment and poverty rates. It also led to the enactment of the National Basic Living Security Act (NBLSA), with the aim of ensuring minimum living for everyone irrespective of their ability to work. The Act also supported the creation of jobs by governmental actors, accumulation of assets, and job-seeking and entrepreneurial efforts of the working poor under a series of self-reliance policy programmes (Ministry of Health and Welfare [MOHW], 2017). Self-reliance enterprises are companies that are run by beneficiaries of the National Basic Living Security Programme (NBLSP) and members of the near-poverty group participating in the Self-reliance Working Groups of local self-reliance centres.

Being recognized as a self-reliance enterprise entitles an organization to policy subsidies, including those for start-up and labour costs and expenses. In order to qualify, NBLSP recipients and near-poor individuals must make up at least one third of its members (and NBLSP recipients, at least one fifth). The organization must also be able to pay all participants at least minimum wages. In order to benefit from wage subsidies, NBLSP recipients working temporarily at the organization must work a certain number of days. Autonomy is a key principle for these enterprises, but the local self-reliance centre and other governmental/public agencies can actively help them with business planning, management training, and so forth until they become stable (MOHW, 2019).

3. Major Initiatives

SEEs generate financial gains by maintaining their market operations. At the same time, they also realize social and public values by creating decent jobs, providing social services, and



promoting urban regeneration and local economies (Stevens, Moray and Bruneel, 2015). The recent policy trend has been fostering ecosystems and removing obstacles so that SEEs can perform these functions uninterrupted. Key examples of policy measures to this end include introducing legal provisions for official policy support; fostering social finance; according preferential treatment to SEEs in public procurement and helping them pioneer markets; supporting and enhancing the management capabilities of SEEs; and providing education and training to develop competent actors for the social economy. In this section, we explore some of the leading policy initiatives launched by the central government of South Korea toward developing sustainable ecosystems for the social economy.

3.1. Legal frameworks for the social economy

According to the OECD/EU (2017), the legal and institutional framework for a social economy clearly shows what a social economy enterprise is by defining the nature, mission and activities of the social economy enterprise. It helps policymakers to support social economy enterprises through a variety of means (such as financial support), and allows funders and investors to fund or invest in social economy enterprises. Therefore, in order to create a social economy ecosystem, it is important to first prepare a legal and institutional framework.

Since 2013, the political parties in Korea have motioned various bills for the FASE with a comprehensive scope. Their aim was to introduce legal and policy grounds for integrating and streamlining policy support, now provided by disparate agencies, into a single channel to foster the ecosystem for the nationwide social economy more efficiently. However, there is not yet a single statute that encompasses the entire social economy in South Korea even though numerous statutes have been introduced for different types of SEEs, submitting them to the control and support by different agencies of the government. The bills for the FASE have since given rise to bills for other related laws, such as the bill for the Special Act on Public Purchases and Marketing Support for Products of SEEs in 2014 and the two bills for the Framework Act on the Realization of Social Values by the Public Sector in 2014. The former states its objective as follows: “To promote the purchase of, and provide marketing support for, products of social economy enterprises so as to realize social values through public procurement, and to promote the spread and growth of those organizations and encourage their innovation toward solving social problems.” On the other hand, the stated purpose of the latter is to pronounce “the realization of social values” as “the central operating principle of the public sector, and thereby significantly enhance the public orientation of the Korean society as a whole by fostering social values through policy making, implementation and evaluation by public organizations” (Ministry of Government Legislation [MOLEG] 2018).

These bills are significant for the whole social economy. The Moon government, whose agenda on high-priority policy issues included the fostering of the social economy, had been working toward the legislation of these bills. Yet these bills are still pending.

3.2. Master plan of human resource development for the Social Economy



In order for the social economy to develop and continue to grow, it is necessary to raise people who are active in relevant areas and bring in competent people to the sector. With the short history of the social economy and the lack of opportunities to experience it in daily life, the level of public awareness of the social economy is low. Efforts have been made to develop human resources to be active in the social economy through education and training, but they are still not sufficient. In 2017, the MOEL had surveyed the state of education and training provided by government agencies for the social economy and found that 114 organizations provided 321 programmes in 2017, helping to educate and train 58,683 persons in cumulative total (Table 2).

Table 2. Numbers of Trainees by Trainee and Organization Types (2017)

Trainee/ organization	Non- governme ntal	Public	Intermedia ry agencies	Governme ntal	Unknown	Total
Students	592	1,069	1,611	5,652	220	9,144
General public	1,218	3,029	4,081	1,170	564	10,062
Aspiring entrepreneurs	1,314	4,453	10,470	408	491	17,136
SEE workers	4,762	2,466	8,894	277	555	16,954
Officials/other	0	0	3,209	2,178	0	5,387
Total	7,886 (13%)	11,017 (19%)	28,265 (48%)	9,685 (17%)	1,830 (3%)	58,683 (100%)

Source: Interdepartmental Report of the Government of Korea. 2018a.

As for the content, most programmes involved providing general and basic education on the social economy and/or introductory training on social entrepreneurship. The vast majority, or 82 percent, were lecture-style programmes, and only 13 percent involved hands-on practice and field trips. Then, more participatory programmes were required, which allow trainees to participate and experience the social economy activities and practice skills needed to start and manage SEEs. Aspiring entrepreneurs (29 percent) and SEE workers (29 percent) made up the majority of trainees, and primary and secondary school students made up only 16 percent. There was a lack of strategies or investment necessary to ensure the sustainable growth of SEEs after their start through quality education and training. The absence of a comprehensive support system also means that much of the education and training provided for SEEs remains compartmentalized, failing to ensure continuity between programmes. Existing means of assessing and surveying the state of education and training remain limited, while there is still the need to develop infrastructure for more accessible, online, forms of education and training.

Hence, the Moon administration released the interdepartmental “Master plan of human resource development for the social economy”, as one of the policy measures for promoting the social economy, in July 2018 (Interdepartmental Report 2018a). According to this plan, the government sought to address those issues, first by increasing the number of teams benefiting from its Young Social Entrepreneurship Support Programme. The programme recruits young social entrepreneurial teams with innovative and creative business ideas and provides each



with a startup fund (from KRW 10 million to KRW 50 million), a working space, and training and mentoring to help it get started. After they get started, the programme continues to support their growth into full-blown social enterprises. The programme was introduced by MOEL in 2011, which had adopted and expanded the various initiatives for fostering the future generations of social enterprises launched by the private intermediary support agencies for the social economy, including Working Together Foundation and SEED:S. It saw its scope widened in 2019, resulting in the recruitment of 800 entrepreneurial teams that year. The plan is to recruit and support 1,000 new teams annually from now on (KoSEA 2019b).

Table 3. Young Social Entrepreneurship Support Programme (2011-2018)

Year	2011	2012	2013	2014	2015	2016	2017	2018	Total
Target N	320	320	320	350	400	500	500	675	3,385
Supported N	312	341	340	359	409	501	511	680	3,453
Participants (N)	1,302	1,315	1,229	1,326	1,551	1,810	1,755	2,332	12,620
N of social enterprises born	213	262	268	337	379	494	494	667	3,114

Source: KoSEA 2019b

Second, the government planned to reinforce support so that colleges and universities can expand their specialized courses designed to develop leaders of the social economy with a strong sense of duty and an entrepreneurial spirit. The Social Economy Leadership Programme (SELP) is a non-degree programme that utilizes the existing educational infrastructure at universities to support the development of students and SEE workers into future leaders of the social economy. From 2013 to 2017, the policy was to have three universities each year to host this programme, and the number was increased to four a year beginning in 2018. As a result, a total of 613 graduates were produced, and seven of the universities that hosted the programme have launched degree programmes related to the social economy (KoSEA 2018a). The central government's new plan is to increase the number of hosting universities to 20 by 2022, and reward exemplary universities by giving them opportunities to exchange and collaborate with other leading higher education institutions worldwide as well as providing students with chances to participate in overseas exchange and training.

Third, with the aim of enabling primary and secondary school students to understand the social economy and practice cooperation, the government decided to add social economy-related content to the public curriculum. Textbooks and teaching materials are to be developed and distributed so that they can supplement social studies and other such related subjects. Social economy is also to be featured as an essential subject when the public curriculum is revised in the future. The government also foster school cooperatives to enable students to participate in the creation and management thereof and learn about the social economy in the process. As of April 2018, sixty school cooperatives have been established and operated all over the country.



3.3. Public procurement for the social economy

The preferential procurement policy allows governmental organizations to accord preferences to the products and services of SMEs, R&D organizations, companies promoting environmental protection and carbon reduction, enterprises run by the disadvantaged, and so forth in public procurement. It is one of the indirect forms of support that the state provides for subjects in need of policy support by purchasing the products and services they produce, rather than directly giving them grants or subsidies. Direct forms of policy support tend to have little lasting effect. Prioritizing disadvantaged or innovative producers, however, by ensuring that public organizations continue to purchase their products and services can help increase jobs for the disadvantaged groups that the state intends to benefit, such as women, persons with disabilities, and the poor. This policy also allows SEEs to reinvest the revenue they earned from public clients in their operations or local communities, thereby reinforcing the sustainability of their employment and growth structures. The central government also implements a policy of preferential procurement from social enterprises (KoSEA 2018b).

As part of the plan it announced in October 2017 for promoting the social economy, the Moon government proposed increasing channels of distribution and marketing support for SEEs. Even before the proposed change, however, the heads of public organizations in Korea were required, under the Act on Facilitation of the Purchase of SME-Manufactured Products and Support for Development of Their Markets, to prioritize the purchases of products from SMEs and social enterprises. The law also required them to report the budgets they spent on such purchases in a given fiscal year to the Minister of Employment and Labour by February the following year. The Minister was also required by the law to compile these purchase records and publish them on the MOEL's website by 30 April.

Table 4. Organizations Required to Report 2020 Purchase Records and 2021 Purchase Plans

Type	National gov't	Local gov'ts		Offices of education	Public enterprises	Semi-governmental institutions	Other public institutions	Local public enterprises	Local public hospitals	Other special-purpose corporations	Total
		Regional	Local								
N	54	17	226	17	36	95	209	152	35	6	847

Source: MOEL 2020.

Pursuant to the Act, 847 public organizations are required to report on their purchases in 2020 and submit their plans for purchases in 2021. These include 54 agencies of the national government, 243 local governments, 338 public organizations (public enterprises and semi-public or governmental institutions), 152 local public enterprises, 35 local public hospitals, and six special-purpose corporations (the National Agricultural Cooperative Federation, the National Federation of Fisheries Cooperatives, the National Forestry Cooperatives Federation, the Bank of Korea, the Korea Federation of Small and Medium Businesses, and the Korea Chamber of Commerce). Public organizations intending to make preferential purchases from



social enterprises can visit the e-store 36.5+2 , an online e-commerce mall operated by the KoSEA and specializing in products from social enterprises, to search and purchase products. There are also offline Stores 36.5, including 10 stand-alone stores and 89 shared stores. Shared stores are mostly located within consumer cooperative stores. The Public Procurement Service (PPS) also offers the Korea Online e-Procurement System (KONEPS),³ which includes the Social Economy Exclusive Store.⁴ The KoSEA's Public Procurement Support Centre also provides a channel for public procurement.

Table 5. Preferential Public Procurement from Social Enterprises (2012-2021, in Million KRW)

Year	Total purchase (A)	Purchase from SEEs (B)	Percentage (B/A)	Number of public organizations
2012	35,991,782	191,633	0.53	504
2013	38,858,926	263,186	0.68	751
2014	37,225,488	355,026	0.95	764
2015	38,496,886	595,727	1.55	777
2016	41,117,067	740,139	1.80	783
2017	46,309,231	942,815	2.04	832
2018	46,755,468	1,059,549	2.27	841
2019	51,255,571	1,282,950	2.50	842
2020	56,872,896	1,622,458	2.85	847
2021	57,927,105	1,674,200	2.89	847

Source: MOEL (2012 to 2020)

As Table 5 shows, the aggregate value of purchases of social enterprises' products and services made by public organizations multiplied from KRW 191.6 billion in 2012 to KRW 1,674.2 billion in 2021, while the share of social enterprises' products and services in total purchase value also jumped from 0.53 percent to 2.89 percent. However, purchases made from social enterprises make up only 1.8 percent of all public purchases made from prioritized/preferred producers (with SMEs and women's enterprises making up 73.3 percent and 4.2 percent, respectively). Although total public procurement from social enterprises has grown over the years, the policy of prioritizing SEEs in public procurement has not been so effective. One reason for this is that much of biddings for public procurement are structured to value the lowest prices offered above social values. Furthermore, although national and local

² www.sepp.or.kr

³ The KONEPS is an advanced electronic procurement system that enables parties to handle the entire process digitally. It displays bidding posts from all public organizations, and also serves as a single window via which any and all businesses can participate in any bidding by registering their information just once. The system has been widely praised for its transparency and also its ability to save significant amounts of money and time.

⁴ <http://shopping.g2b.go.kr/>. The exclusive online store features products from social enterprises, enterprises hiring persons with disabilities, standard disability enterprises, producers with severe disabilities, producers who are National Heroes or their descendants, women's enterprises, traditional culture and the arts, and social cooperatives.



governments are required by law to make certain amounts of purchases from SMEs and women's enterprises, there is no corresponding legal duty regarding purchases from social enterprises (the law requires that 50 percent of total public procurement be from SMEs, eight percent from women's enterprises, and one percent from enterprises hiring persons with disabilities, while purchases from social enterprises are recommended and not required). Meanwhile, the financial hardships faced by SEEs, their limited sales networks, and the shortage of policy support for developing markets have withheld social enterprises from generating much demand on the markets, notwithstanding the government-operated online and offline platforms featuring their products (Interdepartmental Report 2017a).

One way to bolster the social economy is to require governmental and public actors to dedicate certain percentages of their public purchases to products and services from SEEs under the Act on Contracts to Which the State is a Party. The additional points that have so far been allocated, in public biddings, to social enterprises only should also be granted on social cooperatives, self-reliance enterprises and community enterprises, and purchases from each types of these SEEs should be made mandatory. In addition, public organizations can now sign private contracts valued at KRW 50 million or less each with social enterprises that hire over 30 percent of their workers from disadvantaged backgrounds. Best-practice examples of procurement from social enterprises are also to be publicized and disseminated, and the structure for evaluating performances of public enterprises, semi-governmental institutions and local public enterprises is to be reformed so that their purchases from SEEs would count favorably. The exclusive online store for products of social enterprises is to be expanded into an independent website featuring goods and services from diverse types of SEEs, while ties with TV infomercials and department stores are to be reinforced and social economy expos are to be held to advertise SEEs' products far and wide (Interdepartmental Reports 2017a and 2017b).

Table 6. Number of Certified Social Enterprises Registered with the KONEPS

Type	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
KONEPS-featured (A)	29	173	197	378	502	617	667	927	1217	1615	1879
Certified (B)	41	166	231	405	533	668	923	1183	1465	1625	1872
Annual increase	n/a	125	65	174	128	135	255	260	282	160	247
Percentage (A/B)	70.73	100.00	85.28	93.33	94.18	92.51	72.26	78.36	83.07	99.39	100.30

Source: Korea Institute of Procurement (KIP) 2018, "Analysis of KONEPS DW Statistics System" (quoted in KoSEA 2018b).

The number of social enterprises registered with the KONEPS has been rising steadily. In 2007, when the social enterprise certification policy was first introduced, only 70.73 percent of all social enterprises were registered. By the end of 2017, the percentage rose to 100 percent (KoSEA 2018b).



3.4. Policy on social finance for the social economy

The central government's new measures for fostering the social economy, announced in 2018, included measures for social finance, holding that the social finance market was still in a nascent stage. Although the social economy was rapidly growing, sources of social finance remained scarce. The state has been making increasing amounts of public finance available, but at a pace far behind the pace of the growth in the social economy's demand. Intermediaries of social finance remained underdeveloped, in addition to the lack of a system for appropriately assessing SEEs eligibility for financial support. In other words, the entire ecosystem of social finance was absent.

The measures the government introduced to boost social finance included: (1) supporting the creation of the Korea Social Value and Solidarity Foundation (SVS) to serve as a wholesale distributor of social finance and a catalyst for the rise of a sustainable social finance market; (2) fostering intermediary organizations with expertise on finance and social issues so as to reduce the asymmetry of information between investors and SEEs; (3) introducing a system of objectively evaluating the social and financial performances of SEEs and a related database to help private investors make decisions; (4) expanding the governmental and public channels of social finance and encouraging credit unions and mutual savings banks to participate to induce subsequent increases in the private sector's participation; and (5) assembling the Social Finance Council, representing all related organizations and authorities, to strengthen cooperation among governmental organizations, institutions of social finance, and SEEs over the sharing of information, the development of infrastructure, and the preparation of follow-up measures (Interdepartmental Report 2018b).

So far, the following progress has been made. First, SVS was established in December 2018, which is the first wholesale distributor of social finance in Korea based on the partnership between the public, private and civil society with the purpose of contributing to the development of the social finance ecosystem for the sustainable social economy. Its main projects are to provide patient capitals to social economy enterprises and organizations through local intermediaries, to support social impact projects such as social impact bonds, social housing, community ownership and renewable energy led by social economy organizations or local governments, and to foster social finance intermediary organizations. The Foundation was launched with the target of raising KRW 300 billion from public-private partnership. However, as the government cannot invest in it unless the FASE is first enacted, the Foundation has so far received private-sector contributions alone. As of the end of 2019, SVS have raised KRW 28.1 billion and committed KRW 12.4 billion to investment and loan contracts intended to foster the social economy and social finance ecosystems. The local intermediaries have matched it with another KRW 64.6 billion toward raising KRW 77 billion in total, which would be supplied to social economy enterprises and organizations over the next three years (SVS 2020).

In 2018, the central government completed the development of a model for evaluating SEEs so as to facilitate decision-making on social finance. The model was designed to assess both the financial and social performances of SEEs. Specifically, it assesses SEEs in light of how



well they have catered to their stated social missions and characteristics, and also in light of “feasibility for financial support,” rendering general assessment of SEEs’ ability to repay loans. The model can be applied to only certain types of SEEs, namely, cooperatives, social enterprises, community enterprises and self-reliance enterprises (Policy and Evaluation 2018).

Table 7. Policy Finance Plans and Progresses on Providing Social Finance (January to September 2019)

Type	Institution	Budget 2019	Executed as of end of June	Number of eligible enterprises	
Loans	Korea Inclusive Finance Agency	50	35	60	Loans for SEEs
	Korea SMEs and Startups Agency	500	489	219	Favorable rates on policy loans
	Small Enterprise and Market Service	100	48	86	Exclusive fund for SEEs
	Credit Union	300	156	128	Mutual Partnership Loans, etc.
	MG Saemaul Geumgo	10	30	22	Social Growth Support Project
Credits	KCGF	1,000	1,061	592	Credit guarantee programmes
	Local Credit Guarantee Foundations	150	104	223	Special credits for SEEs
	Korea Technology Finance Corporation	700	780	182	Social Venture Impact Guarantee
Investment	Korea Growth Finance	200	210	22	Social investment fund
	Korea Venture Investment Corporation	220	416	44	Social Impact Investment Coop
Total		3,230	3,329	1,578	

Source: Financial Services Commission (FSC) 2019 and Jang (2019)

The Social Finance Council was also launched and has been organizing quarterly meetings since April 2018 to monitor progress made under policy support for social finance and to deliberate upon needed improvements. The minutes of the most recent meeting, held in November 2019, show that the central government has decided to play a leading role in fostering ecosystems for social finance by continually increasing publicly available funds, agreeing to provide KRW 323 billion in 2019, but, exceeding the target amount, KRW 332,9 billion had been provided for 1,578 SEEs and other eligible businesses as of September.⁵

⁵ Although the demand for funds from the social economy sector has been much met due to this leading role of the central government, however, the problem has emerged that funds are mainly supplied to SEEs with corporate status, so the financial demands from SEEs with other legal status such as cooperatives and non-profit organizations are not properly met. In addition, impact funds that support SEEs



Recognizing that the lack of available information on nongovernmental intermediaries of social finance made it difficult for SEEs to access finance, the central government ordered a fact-finding survey on the problem and established a database of social finance intermediaries as a result. In addition, the government will also develop another database by the end of 2019 to provide credit information on SEEs that have received financial support from institutions affiliated with the Social Finance Council. The government has encouraged commercial banks to participate in efforts toward promoting social finance as part of their socially responsible management practices. As a result, commercial banks together provided KRW 252.7 billion for SEEs in 2017, and another KRW 342.4 billion in 2018. In 2019, the banks are estimated to have provided KRW 354.2 billion already as of September. Loans made up for almost all of the financial support provided by these banks, or KRW 186.8 billion (98.1 percent), while donations and sponsorship amounted to KRW 3.2 billion (0.9 percent). Product purchases accounted for KRW 2.8 billion (0.8 percent), and capital investment in new businesses, KRW 0.5 billion (0.1 percent).

Table 8. Commercial Banks' Financial Support for SEEs (January to September 2019)
(Unit: KRW 100 million)

Type	2017			2018			2019		
	Amount	N	Avg.	Amount	N	Avg.	Amount	N	Avg.
Social enterprises	2,008	1,808	1.1	2,987	2,499	1.2	2,552	2,029	1.3
Cooperatives	329	168	2.0	278	185	1.5	872	275	3.2
Community enterprises	156	161	1.0	138	188	0.7	86	96	0.9
Self-reliance enterprises	34	167	0.2	21	114	0.2	32	115	0.3
Subtotal	2,527	2,304	1.1	3,424	2,986	1.1	3,542	2,515	1.4

Note: Where a given organization fell into two or more categories of SEEs, it was counted in the category in which it received the greatest amount of funding.

Source: Jang 2019 and FSC 2019

3.5. Surveys, statistics, and public awareness for the Social Economy

Surveys and observations are essential to the design and implementation of effective and efficient policy measures for the social economy. The various national statutes, municipal ordinances, and enforcement decrees laying down the legal grounds for cooperatives, social enterprises, community enterprises and self-reliance enterprises require relevant ministries to

from the start-up stage to scale-up are supplied at about KRW 100 billion annually in total from the public and private sector, which also revealed the problems that the social impact fund management companies' demand for easing the dividend limit on SEEs with corporate status has increased to improve their return on investment, or some founders of SEEs have abandoned their social missions and pursue their private interests, which requires the establishment of the legal and institutional frameworks to prevent such moral hazards.



conduct periodical surveys into these SEEs respectively. The findings of such surveys have formed an important basis for policy planning by relevant authorities.

However, an attempt has been made only recently to produce statistics on the entire social economy in Korea. This is because different departments and agencies handle different types of SEEs, making it difficult to introduce comprehensive and centralized policy measures. In order to have the bill for the FASE made into law, however, it is critical to ascertain the current conditions of the overall social economy first. As sizable amounts of fiscal resources are invested in fostering it nationwide every year (the national government's budget for the social economy in 2009 amounts to KRW 460 billion and would likely increase to KRW 480 billion in 2020), it is also important to base related policy measures on accurate statistics. In 2019, Statistics Korea made the first attempt to establish statistics on 13 types of SEEs according to a number of indicators (the number of SEEs of each type, the aggregate revenue per type, the gender and age distributions of SEE workers, the lengths of their employment, their rewards or wages, their inclusion in social insurances, and the number of jobs newly created, maintained or replaced by SEEs) based on existing administrative data. The statistical findings will be announced in the near future. Efforts to produce statistics are necessary to the development of scientific and objective policy measures. They are also necessary to help the social economy obtain social and political recognition and thereby enhance the legitimacy of policy support for it. Finally, such statistics also provide essential basic data for in-depth research (Bouchard and Rousselière, 2015). Statistics Korea's report is therefore expected to be a milestone in the theoretical and practical efforts to foster the social economy in Korea.

To share opinion and engage with the social issues, public awareness about them is critical. As a way to raise public awareness, online platforms play an important role (Mavrodieva, Rachman, Harahap and Shaw, 2019). The KoSEA⁶ has gone to considerable lengths to raise public awareness of the social economy. It has launched online platforms providing general and far-ranging information on the social economy; distributed publications that introduce major policy programmes, cases and achievements regarding the social economy. The website allows the accumulation and sharing of a wide range of information, inviting anyone interested in the social economy to check out current conditions of the social economy and SEEs in South Korea, policy programmes, various announcements and postings, research and educational materials, and job classifieds posted by SEEs and other businesses.

3.6. Public-private partnership for development and implementation of social economy policies

Over the years, the central government has been expanding the scope of the social economy it recognizes and supports, starting with programmes for self-sufficiency enterprises (MOHW in 1996) and proceeding to fostering social enterprises to create jobs (MOEL in 2003), fostering community enterprises (MOIS in 2011), and the enactment of the FAC in 2012 (based on the

⁶ <https://www.socialenterprise.or.kr/>



bill drafted by the Ministry of Economy and Finance [MOEF]). There is pressing need to establish an overarching policy framework encompassing all these. Lack of progress in efforts to enact the FASE, however, has left disparate departments and agencies to develop and implement their own policy measures for different types of SEEs. Promoting the social economy, however, was one of the 100 highly prioritized policy objectives of the Moon Jae-in administration from May 2017 to 9th May 2022. The central government has thus set out to enhance the effectiveness and efficiency of the social economy policy by promoting the creation of a coherent and integrated framework of policy support.

In order to establish effective and efficient social economic policies, the government should make sure that the various stakeholders of the social economy are actively involved in the policymaking process. This co-construction of public policy allows the social economy to realize its potential with more coherent and strategic approaches and reduces information asymmetry through discussions, thereby reducing transaction costs, when implementing or adjusting policy measures. In addition, the wider and diverse range of actors involved in the policy-making process, the more effective and innovative policy measures can be taken by governments than in unilaterally designing or implementing policies (Mendell and Alain 2013).

KSENET, short for the Korean Social Economy Network, is the representative of the nongovernmental sector participating in the public-private partnership for the effective governance of policy making of the national social economy. KSENET, a network of various associations of SEEs, proposed key policy measures needed to boost the social economy to all the candidates running in the last presidential election. These included assembling a presidential committee on the social economy, speeding up the processes for the enactment of the FASE, and specific measures to promote the social economy and achieve a sustainable society and economy. The Moon administration agreed to realize many of these proposed measures once the long-awaited FASE is enacted. Therefore, the Presidential Committee on Jobs (Jobs Committee) had the Social Economy Subcommittee, with members drawn from both public service and the private sector, devising policy measures to boost the social economy on the national level, such as measures to promote social finance, develop social economy actors, and support school cooperatives (KSENET 2018).

In the process, for the past five years, the MOEF-centered council of interdepartmental consultation and cooperation consisting of officials from 13 departments played an important part in coordinating and adjusting diverse policy measures for the social economy designed and implemented by different departments as well as the respective roles of the national and local governments for the effective and efficient delivery of the policy measures (Interdepartmental Report 2017a). MOEF has organized the department on the social economy to support the process.

5. Concluding Remarks

We have examined the legal and institutional frameworks and public policy measures of the South Korean central government to promote the social economy. Specifically, we focus on



the essential components of ecosystems for the social economy which enable SEEs to thrive over time (OECD/EU 2017; UNRISD 2019). Here, we examine their achievements and limitations, or challenges to meet for the sustainable development of the social economy nationwide.

Notwithstanding its short history, the social economy has grown significantly in recent years in Korea, and in the process, the governments have played an important role. As mentioned above, the central government have made an effort to build such ecosystems for the social economy, so that essential components of such ecosystems (OECD/EU 2017; UNRISD 2019) have been established in the local level as well as in the national level. The legal and institutional frameworks for SEEs have been established, arrangements for promoting their access to markets and finance have been made, business support structures and education and training programmes have been developed. Survey on each types of SEEs has been conducted regularly and statistics on the entire social economy are being produced.

Despite of this growth, however, the impact of the social economy on the national economy is still weak. According to a survey, as of late 2018, the total number of all types of SEEs was about 25,000, representing only 2.98 percent of the total number of businesses, the number of people working for SEEs was 0.94 percent of the total number of employees in the national economy, and the total turnover of those enterprises was only 4.43 percent of GDP. Furthermore, the turnover became negligible at 0.55 percent of GDP if we exclude from the count highly institutionalized cooperatives which do financial business, such as agricultural cooperatives, credit unions and community credit cooperatives called Saemaeulgeumgo (Interdepartmental Report 2019).

Another problem is that many SEEs rely on financial support from the government, which raises a question about the autonomy and sustainability of SEEs. In a survey, 38.9 percent of enterprises surveyed reported that it would be difficult to be self-reliant without government support (Kim et al. 2018). Even though the policy paradigm for SSEs has shifted from direct financial support for individual enterprises to building ecosystems in which they can flourish in the central government level, most SEEs are small and lack competitiveness in the markets. SEEs pursue both economic and social value at the same time, which makes it difficult for them to compete with commercial enterprises in the markets. However, it is also true that SEEs need to make more efforts to increase innovation based on various policy support from the state, in order to be competitive in the markets as well as to find more innovative new solutions for unresolved social problems emerging in society. At the government level, there is also a need to develop policies for promoting the innovativeness of SSEs. As part of it, the central government seeks to loosen the criteria for social enterprise certification and shift from the present certification system to a registration system for social enterprises in the long run, in order to include enterprises such as social ventures in the scope of the social economy. Social ventures have emerged spontaneously, then relatively free from governmental regulations, and seek to solve a wider variety of social problems in more innovative ways than existing social enterprises. Then, the central government has recognized their potential as a facilitator



of social innovation and developed various policy measures to foster them (KoSEA 2019c; Joo, Cho and Yoon 2018).

Aside from the quantitative growth of the social economy, another achievement is that more integrated and coherent social economy policies have set out to be designed and implemented at the level of the central government due to the efforts of the Moon Jae-in government. However, for such a policy system to be established and to be continued, FASE and related laws should be enacted as soon as possible. Efforts should be made to establish political consensus among the parties, which requires further efforts to raise the public awareness of the social economy.

Many resources have been devoted to fostering social entrepreneurship and developing human resources for the social economy through education and training at the level of the central government. As a result, the number of SEEs and people working for them has increased. But there are many limitations as mentioned above. However, the master plan of human resource development for the social economy, announced in 2018, is expected to contribute to the development of the social economy by expanding the scope of education and training and improving the quality of them.

There are also some achievements and limitations in terms of the co-construction of public policies for the social economy. The cooperative partnership between social economy actors and governments is essential in the process of developing and establishing those ecosystems, which ensures more effective and efficient policy development and implementation with more coherent and strategic approaches (Mendell and Alain 2013). At the central government level, the KSENET has participated in the process of designing and implementing social economy policies as the counterpart of the government.

But there are a limited number of channels in which the social economy sector can take the lead in the central government level. There are many possible reasons for this, but it is mainly because of a lack of cohesion among SEEs enough to come together as a cohesive movement (Utting 2017). Many organizations representing the social economy sector have not grown based on grassroots organizations over time, but created to meet the government's policy needs, which could lead to a lack of organizational and financial foundations enough to ensure their autonomy and independence in the relation with the governments.

As for the preferential public procurement policy for the social economy, it has drastically increased the total value of public procurement from SEEs in a few years, as we have seen above. However, it is pointed out that there are some challenges to face. Most products and services from SEEs are simple and low value-added, and then suffer from an excessive competition with those of other SMEs, women's enterprises or enterprises hiring persons with disabilities which are also beneficiaries of preferential public procurement policies.

Therefore, SEEs are required to develop products and services with higher social value reflecting their own characteristics. Another challenge is that public purchases of products and services from SEEs have increased significantly, but those from the top 10 percent of SEEs



account for more than 60 percent of the total supply in the public procurement market, while those of the bottom 50 percent of SEEs account for only less than 5 percent of it. More efforts are also required to reduce information asymmetry between SEEs and public organizations, including the introduction of quality assurance system for products and services from SEEs. Probably all these problems derive from the fact that most SEEs are small and lack of competitiveness in the markets. Therefore, various public measures need to be taken for more SEEs to participate in the public market but SEEs also need to make more efforts to increase their competitiveness (Lee et al 2018).

The social finance market is still in a nascent stage but SEEs are getting better access to finance to meet their growing financial needs due to various public policy measures nationwide. In particular, the plan for fostering social finance, announced in 2018, is expected to make a significant contribution to the development of Korean social finance, in terms of creating the social finance ecosystem through the establishment of wholesale distributors of social finance, intermediary organizations on the local basis, and effective evaluation systems for social and financial performance of SEEs as well as increased fund supply for the social economy.

However, it is noted that efforts are also being made in the social economy sector to raise fund among SEEs to build self-reliant social finance. Excessive dependence on the state-led social finance may bring about unintended consequences that only few SEEs with good credit records can benefit from the social finance, while most SEEs are left out, as seen in many social funds that have conservatively managed funds because of the risk of loss of principal. Mutual aid funds based on the financial solidarity will increase self-determination of SEEs, which leads to the effective and efficient social finance market (Kim et al 2018).

In conclusion, the legal and institutional frameworks and various public policy measures for the social economy have played a major role in the development of the social economy in South Korea. However, as examined above, if such state-led efforts are not accompanied by the efforts from the social economy sector, they can have unexpected consequences on the development of the social economy. It shows how important it is to cultivate and maintain the autonomy and independence of the social economy sector.

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