

Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries

Country Analysis: Republic of Korea

The Japan Research Institute

Office of the Multilateral
Investment Fund

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1. Country Overview

1.1 Country Profile¹

Table 1: Fact Sheet of Republic of Korea

Population (2014)	50,423,955
GDP per capita (current USD, 2014)	USD 27,971
Rural population (% of total population, 2014)	18%
CO2 emission per capita (metric tons, 2011)	11.8 metric tons
GINI coefficient (2013)	30.2
Population below national poverty line (% , 2013) ²	16.9%
Unemployment (% of total labor force, 2014)	3.5%
Social Progress Index (2016) ³	80.92 (26th out of 133 countries)

1.2 Economic and Social Overview

South Korea is known for its rapid industrialization since the 1960s. The authoritarian regimes led by former generals President Park Chung-hee (1961–1979) and President Chun Doo-hwan (1980–1988) in particular made significant contributions to the country's economic development. While achieving high economic growth, they managed to alleviate poverty on a large scale, achieve a fairly equal income distribution, develop social infrastructure, and establish an effective public administration system. Nevertheless, many social and political problems started to emerge due to the rapid economic and social transformation. From the mid 1980s the strong opposition movement led by Kim Young-sam and Kim Dae-jung successfully mobilized urban workers, students, intellectuals, and middle classes. In 1987, after decades of struggle against Japanese colonialism during World War II and the authoritarian rule thereafter, Koreans overthrew their military dictatorship and accomplished a transition to democracy. Since then, South Korea has been gradually transforming itself from a protectionist, state-directed economy to a more open, market-oriented economy. In this context, a few major conglomerates (chaebol), which have close relationships with the government, play influential roles.⁴

South Korea was ranked 17th worldwide in UNDP's 2014 Human Development Index, demonstrating a very high level of development. Its HDI value improved from 0.622 to 0.898

¹ World Bank Data (<http://data.worldbank.org/indicator/>) for Population, GDP per capita, % of rural population, CO2 emissions per person, and Unemployment, OECD.stats (<http://stats.oecd.org/index.aspx?queryid=66670>) for GINI coefficient and Population below national poverty line. [Accessed 25 July 2016]

² Poverty threshold is set at 50% of the median income observed in a given reference year.

³ Michael Porter's Social Progress Index measures multiple dimensions of social progress, benchmarking success, and catalyzing greater human wellbeing <http://www.socialprogressimperative.org/data/spi>

⁴ Bertelsmann Stiftung (2016). "BTI 2016 — South Korea Country Report"

from 1980 to 2014. During this period, the country's GNI per capita increased by 529%, life expectancy at birth by 15.8 years, and mean years of schooling by 4.6 years⁵

South Korea has achieved an impressive almost-universal enrollment at the tertiary level (95% in 2013)⁶. Its network of universities and colleges includes a few world-class institutions, not only in Seoul, but also in other regions and provinces. The aforementioned conglomerates (chaebol) have also built strong research facilities and technical institutes. Unlike the United States, there is no system of public research institutions outside of public universities.⁷

South Korea's civil society grew as a result of rapid economic development and the expansion of the economic middle class. The East Asian country has a vibrant civil society with many voluntary associations engaged in self-help activities; the majority of them are associated with religious organizations.⁸

1.3 Key Social Challenges

Despite its success in achieving substantial economic growth, South Korea faces a myriad of social challenges.

1.3.1 Income inequality

In the 1960s, social policies were subordinated to economic policies by the authoritarian regimes. As such, people's well-being depended on social welfare offered by employers and family initiatives such as household savings and elderly care by children. The 1997-1998 Asian Financial Crisis, however, undermined companies' ability to offer similar levels of employee welfare. Also, with the aging demographics and the increasing prevalence of nuclear families, households no longer could take care of themselves or their elderly members. These forces combined to widen the income inequality gap between the poor and rich.⁹ According to the OECD statistical database, the Gini coefficient was 30.2 in 2013 - below the OECD average but higher than most European countries. The same database shows that 16.9% of the population lived below the national poverty line (measured as the percentage of the

⁵ (http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/KOR.pdf) [Accessed 25 October 2016]

⁶ (<http://data.worldbank.org/indicator/SE.TER.ENRR>) [Accessed 25 October 2016]

⁷ Bertelsmann Stiftung (2016). "BTI 2016 — South Korea Country Report"

⁸ Bertelsmann Stiftung (2016). "BTI 2016 — South Korea Country Report"

⁹ (<http://thediplomat.com/2014/11/south-koreas-shocking-inequality/>) [Accessed 25 October 2016]

population with an income, after taxes and transfers, of below 50% of the current median income).¹⁰

1.3.2 Youth unemployment

High youth unemployment is another critical issue caused by structural problems after the Asian financial crisis. Although overall unemployment is relatively low at 4.0% (as of September 2016), youth unemployment increased from 5.7% in 1997 to 9.5% in September 2016.¹¹

There are mainly five structural problems contributing to such a concerning trend:

- overall decrease in jobs due to economic slowdown;
- insufficient employment opportunities for highly educated workers;
- misalignment between school education and employers' needs;
- weak vocational training programs outside the major cities;
- and a lack of employment support services, such as information services for job openings.¹²

Though not reflected in unemployment figures, an increasing number of youth is obtaining irregular jobs with comparatively low salary levels and low job security.

1.3.3 Gender inequality

Women, compared to men, face greater difficulties accessing regular and executive positions in private companies and government agencies. According to the Korean Statistical Information Service, the employment rate for men above the age 15 was 74.3% as of September 2016 while that for women was 52.7%.¹³

Although a female president was elected for the first time in December 2012, only 2 among 19 cabinet members are women (as of October 2016).¹⁴ According to the Korea Herald, as of January 2013, only 272 (9.1%) of the total 2,993 directors in the country's 288 public

¹⁰ (<http://stats.oecd.org/index.aspx?queryid=66670>) [Accessed 25 October 2016]

¹¹ (<http://www.tradingeconomics.com/south-korea/unemployment-rate>) [Accessed 25 October 2016]

¹² (http://www.jil.go.jp/english/reports/documents/jilpt-reports/JILPTRNo5_jeong.pdf) [Accessed 25 October 2016]

¹³ (http://kosis.kr/eng/statisticsList/statisticsList_01List.jsp?vwcd=MT_ETITLE&parentId=B#SubCont) [Accessed 25 October 2016]

¹⁴ (<http://www.korea.net/Government/Administration/Cabinet>) [Accessed 25 October 2016]

institutions are women. More than half of these institutions have no female executives. Only 5.6%, or 16 institutions, are run by female chief executive officers.¹⁵

Women in the private sector experience even stronger gender bias. According to the third annual survey by the U.S. headhunting company Korn Ferry and the National University of Singapore Business School Centre for Governance, Institutions and Organizations, the percentage of female directors in South Korea dropped from 2.4% in 2013 to 2.1% in 2014, the lowest among 10 Asia-Pacific countries.¹⁶ Accordingly, South Korea was ranked 115th out of 145 countries in the 2015 World Economic Forum's Gender Gap Index.¹⁷

1.3.4 Other disadvantaged groups

Other than youth and women as mentioned above, migrant workers, handicapped persons, and refugees from North Korea also face difficulties in terms of legal protection from abuse, access to job opportunities, and obtaining equal wages. The public is gradually becoming aware of mistreatment of migrant workers. Refugees from North Korea receive initial guidance and benefits, but are then basically left to their own devices.¹⁸

1.3.5 Low public investment in social security

Since the late 1990s, the South Korean government has undertaken a number of steps toward developing a social security net, such as insurance programs for medical care, pension, accidents, and unemployment. Nonetheless, public spending on social welfare is still very low, at 10.4% in 2014, which is the lowest among the OECD countries¹⁹. As a result, medical treatments, for example, covered by health insurance require high contributions through copayment.²⁰

1.3.6 Environmental issues

The South Korean government has recently enacted key environmental laws and is implementing various environmental policies. The country has managed to reduce emission levels of air pollutants, particularly sulfur oxides, and improve water quality and waste

¹⁵ (<http://www.koreaherald.com/view.php?ud=20130116000324>) [Accessed 25 October 2016]

¹⁶ (<http://asia.nikkei.com/Business/Trends/South-Korea-and-Japan-have-fewest-women-directors>) [Accessed 25 October 2016]

¹⁷ (<http://reports.weforum.org/global-gender-gap-report-2015/economies/#economy=KOR>) [Accessed 25 October 2016]

¹⁸ Bertelsmann Stiftung (2016). "BTI 2016 — South Korea Country Report"

¹⁹ (http://www.koreatimes.co.kr/www/news/biz/2015/02/488_173077.html) [Accessed 25 October 2016]

²⁰ Bertelsmann Stiftung (2016). "BTI 2016 — South Korea Country Report"

recycling. In 2015, the government initiated the carbon emission trading system as a measure to control greenhouse gas emissions.

Nevertheless, the government still prioritizes achieving economic growth over tackling environmental challenge. Renewable energy production remains negligible. Energy and fuel prices are too low to incentivize change in consumption patterns. Korea is one of the few countries in the world that is actively expanding nuclear energy production despite the unsolved issues surrounding nuclear waste and concerns about safety.²¹

2. Overview of Social Entrepreneurship and Social Innovation Movement

2.1 History

Social enterprises in South Korea have developed under the government’s strong leadership. The most significant milestone in the history of social economy development came in 2007 with the enforcement of the Social Enterprise Promotion Act. The Act aims to foster the growth of social enterprises that can create jobs as well as provide social welfare services to vulnerable segments.

Table 2: History of social economy development in South Korea

Year	Economic trends	Legal framework, social movements, etc.	Seoul Metropolitan Government
1980-1994		Manufacturing worker cooperatives and consumer cooperatives etc. emerged in poverty reduction.	
1995-1999	1997-98 Asian financial crisis	1996 Self-sufficient Community Enterprise Project initiated by the Ministry of Health and Welfare 1998 Citizen-Driven Job-Creation Program initiated by citizen groups and cooperatives	
2000-2004	2003 Korean credit crisis	2000 National Basic Life Security Act enacted 2000 Social Solidarity Bank established (a civic intermediary organization) 2003 Social Jobs Creation Program initiated by the Ministry of Labor	

²¹ Bertelsmann Stiftung (2016). “BTI 2016 — South Korea Country Report”.

2005-2009	2008 Global financial crisis	2005 Social Enterprise Promotion Task Force established by the government 2007 Social Enterprise Promotion Act enacted 2007 The First Social Enterprise Promotion Master Plan implemented (2008-2012)	
2010-		2010 Social Enterprise Promotion Act amended 2011 Local governments are obliged to pass Social Enterprise Promotion Ordinances 2011 Social Enterprise Promotion Agency established 2012 The Second Social Enterprise Promotion Master Plan (2013-2017)	2011 Mr. Won-Soon Park elected as the Mayor of Seoul 2012 Seoul Social Economy Center established 2012 Seoul Social Investment Fund established 2014 Seoul Metropolitan City Framework Ordinance on Social Economy enacted

2.2 Before Social Enterprise Promotion Act (Until 2007)

From anti-poverty civic movements to the government’s Self-sufficient Community Enterprise Project (1980 - the Asian financial crisis in 1997)

In the 1980s, civic community movements to alleviate poverty among the urban poor evolved into nation-wide movements aiming to solve various social issues, such as healthcare, education and welfare. As a response to these civic movements, the government established five “self-support centers” in 1996 and started the Self-sufficient Community Enterprise Project to tackle the critical unemployment issues. This project aimed to create jobs by encouraging public institutions to commission services to the newly established “self-support centers” on preferential basis.

From the Citizen-Driven Job-Creation Program to the government’s Social Job Creation Program (late 1990s - early 2000s)

In 1998, severely hit by the Asian financial crisis, people across the country started to engage in the “Job-Creation Program”, which persuaded the government to enact the National Basic Life Security Act in 2000. Based on this law, the government provides low-income people with subsidies that supplement their income to reach a minimum threshold²².

After the Asian financial crisis, the Korean economy showed some recovery signs. Nevertheless, the economy deteriorated once again due to increasing credit insecurity and decreasing export competitiveness. Corporate bankruptcies and low-pay non-regular jobs

²² Before the National Basic Life Security Act, only over 65 years old were eligible to receive public assistance.

increased in number as a consequence, resulting in greater income disparity.

Given the limitation of the private sector to absorb the unemployed, the government commenced the “Social Job Creation Program” that focused on generating jobs in the social service sectors, such as education, environment, culture and health care. The 2004 Labor White Paper issued by the Ministry of Labor clearly describes the background of the Social Job Creation Program, highlighting the important role of nonprofits:

Our economy has recently been experiencing perpetual low economic growth. Due to technology development and structural changes of the economy, the corporate sector’s power to absorb unemployment is weakening. On the other hand, with rapid aging population and increase in women’s contribution to the workforce, there are growing demands for services in the areas of social welfare, elderly care, childcare, etc. Although these are all labor-intensive services, the actual number of jobs created is very low. Thus, the government is promoting the Social Job Creation Program to generate employment in non-profit organizations engaged in the social service sector, where the government and the private sector face limitations.²³

As demand for social services was growing in this time period, many considered the government initiative to be an effective solution to unemployment. At the same time, civil society organizations such as the Work Together Foundation and the Social Solidarity Bank started supporting social enterprises through loans and other financial instruments.

Some, however, criticized that the government-driven initiative would only create short-term and low-wage jobs. As a result, the government aimed to execute more sustainable solutions to unemployment by cooperating with intermediary organizations and the private sector. For instance, the government launched a task force to develop legislations of social enterprises by learning mainly from European experiences.

Thus, the period from the 1980s to 2007 – the early days of social enterprise development in South Korea - can be characterized by the important role of poverty and unemployment that triggered government action.

²³ Ministry of Labor (2004). “Labor White Paper”

2.3 After the Social Enterprise Promotion Act (2007 onward)

In 2007, the South Korean government enforced the pivotal Social Enterprise Promotion Act that has defined the social enterprise landscape in the country. This Act's purpose is "to contribute to the enhancement of social unity and the quality of life of citizens by supporting social enterprises in the creation of new job opportunities and the expansion of under-delivered social services" in South Korea [MOEL, 2012]. It also requires the Chief Administrator of the Ministry of Employment and Labor to develop a five-year master plan to support social enterprises.

The government aimed to achieve three goals through this Act.

- (a) To consolidate the definition of social enterprises and provide legal status to social enterprises. Legalizing the existence of social enterprises was necessary for them to raise funds and participate in government procurement.
- (b) To build the capacity of civil society organizations. Due to South Korea's history of rapid democratization, the country boasts rich human resources that can implement social activities through civil society organizations. But, they often lack business skills needed to develop financially sustainable ventures.
- (c) To strengthen the role of the private sector. The South Korean economy is dominated by a few large conglomerates that create and control the majority of the country's wealth. With the recession in 1997, these key economic actors hesitated to take proactive investment stances. Thus, the government felt the need to encourage corporations to increase their investments and contribute to solving social issues.

Under the Social Enterprise Promotion Act, two master plans have been developed and executed to date: The first plan spanning from 2008 to 2012; the current and second plan from 2013 to 2017.

During the implementation period of the first master plan (2008-2012), the number of social enterprises jumped from 50 in 2007 to 774 in 2012, while the number of employees working for social enterprises also expanded from 1,403 to 18,689 in the same period. The government considers this major progress to be attributed to policies supporting social enterprise such as payroll subsidies, sales channel development, financial support, tax exemption and

preferential public procurement.

On the other hand, since the Social Enterprise Promotion Act supported the government to directly subsidize social enterprises' personnel costs, many criticized that it is impeding the sustainable, long-term growth of social enterprises. In fact, some social enterprises faced challenges surviving after the termination of the government's three-year payroll subsidy.

To address these above issues, the second master plan (2013-2017) focused on:

- (a) strengthening the sustainability of social enterprises;
- (b) developing customized support;
- (c) expanding the role and impact of social enterprises; and
- (d) enhancing partnerships between corporations and local communities.

In sum, the second master plan aims to develop an ecosystem supporting social enterprises rather than providing directly subsidies.

Developing the ecosystem means improving both financial and operational sustainability of each key player, including investors, intermediaries, and social enterprises. In other words, each player in the ecosystem needs to generate an optimal level of profit in order to ensure financially sustainability.

The Social Economy Center established by the Mayor of Seoul Metropolitan City in 2012 plays an important role in developing the ecosystem to enhance the sustainability of such organizations. The Seoul Metropolitan Government in particular defined the Seoul Social Economy Center's support programs in its ordinance so that the municipal government can continue extending services under different mayors and administrations.

2.4 Seoul: The Country's Pioneering Haven for Social Enterprises

Seoul is not only the country's political capital, but also the most economically vibrant city in South Korea. This derives not only from the high concentration of the country's population, politics and economics in the city but also from the mayor's personality.

A lawyer by training and a social activist in practice, Mr. Won-Soon Park became the Mayor of Seoul in 2011. In 1993, he co-founded the nonprofit watchdog organization People's Solidarity

for Participatory Democracy, one of the most prominent civic organizations in South Korea, and later became a member of its executive and steering committees. He also founded the Hope Institute, a not-for-profit think tank. In 2000, Businessweek selected him as one of the fifty “Stars of Asia” who are leading social change. In the same year, he started the Beautiful Store, a social enterprise, based on the charity shop business model which he witnessed during his stay in England.

Under the leadership of Mayor Won-Soon Park, who has a deep understanding of solving social issues through business principles, Seoul city has been able to build a supportive environment for social enterprises. In 2012, the Seoul Metropolitan Government created the center and established the Seoul Social Investment Fund.

The Seoul Social Investment Fund is a financial vehicle that provides low-interest and no-interest loans to businesses with social impact. As the initial capital, the Seoul Metropolitan Government allocated USD 50 million²⁴ with an additional USD 3 million raised from the private sector. The fund engages in a variety of socially oriented initiatives: providing loans for social enterprises and other projects including social housing; investing in social impact bonds; and fostering partnerships with social finance Intermediaries.

Furthermore, the municipal government enacted the Seoul Metropolitan City Framework Ordinance on Social Economy in 2014, with the purpose of invigorating the social economy and establishing a sustainable, social economic ecosystem in the Seoul Metropolitan City.

3. Public Policy for Social Entrepreneurship and Social Innovation

3.1 The Social Enterprise Promotion Act

The Social Enterprise Promotion Act enacted in 2007 has served as the main driver for the recent growth and spread of social enterprises in South Korea. In this Act, a “social enterprise” is defined as:

- “A company which engages in business activities to produce or sell products or services while pursuing such social purposes as providing vulnerable groups with social services or

²⁴ 1 KRW = USD 0.001 is used throughout this report.

jobs.”

- “A company which reinvests profits in its business or the local community putting priority on pursuing social purposes rather than on maximizing profits for shareholders or owners of the company.”

The certification criteria for Korean Social Enterprises are the following.

Table 3: The Certification Criteria for Korean Social Enterprises

Legal status	<p>(a) Cooperatives (social cooperatives) Organizations that engage in one or more business activities that i) contribute to improve local communities, invigorate local economies, enhance rights, interests, and welfare of residents etc.; ii) provide disadvantaged people with social services or jobs; iii) are entrusted by the central government or the local government; and iv) contribute to enhancing the public interest. A social cooperative is not allowed to distribute profits to its members.</p> <p>(b) Public Corporations Government-invested (with at least 50 percent government ownership), subsidiaries of government-invested (usually having indirect government funding), or other government-backed corporations.</p> <p>(c) Nonprofit civic organizations Publicly-oriented organizations that are engaged with the government to supplement the service provider role.</p> <p>(d) Social Welfare Corporations Semi-public organizations that provide social welfare services</p>
Employment of paid workers	Must employ at least one paid worker and conduct business activities that produce and/or sell products and/or services.
Realization of social purposes	Must put priority on pursuing social purposes, such as offer jobs or social services to vulnerable groups, contribute to communities by enhancing residents’ quality of life.
Democratic decision-making process	Must have a democratic governing structure; stakeholders including service recipients and employees participate in decision-making processes.
Profit	Must generate profits to cover more than 30% of labor costs.
Articles of incorporation	Must have articles of incorporation based on the Social Enterprise Promotion Act Article 9 (Articles of Association, etc.).
Profit distribution	At least two thirds of annual profit should be re-invested in social purposes.

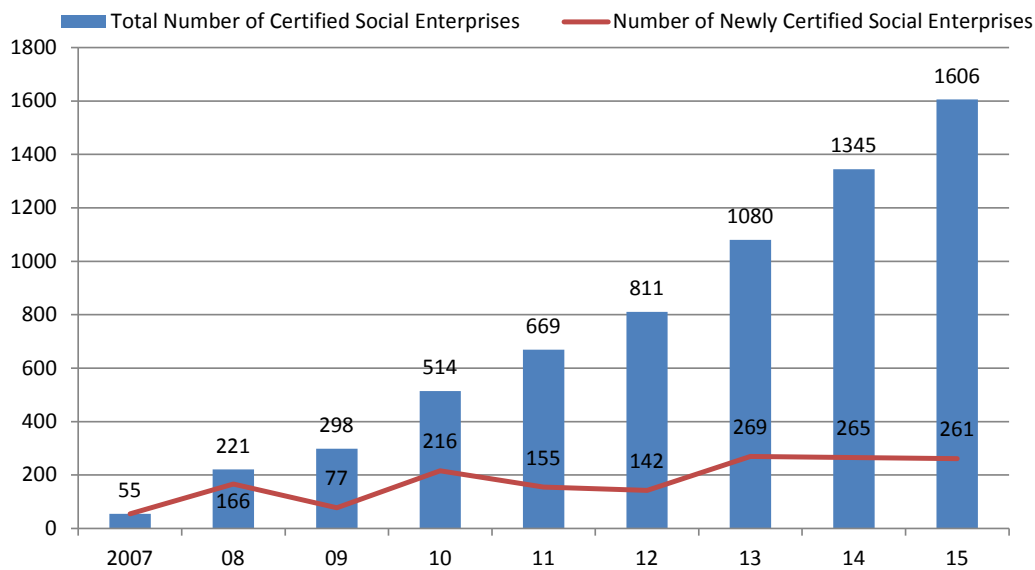
(Source: Korea Social Enterprise Promotion Agency)

Social enterprises are classified into 5 types in Korea according to their social purposes.

Table 4: The five types of social enterprise and their characteristics

Job-creation Type	The main purpose of the enterprise is to offer jobs to vulnerable social groups.
Social Service Provision Type	The main purpose of the enterprise is to provide vulnerable groups with social services.
Mixed Type	A hybrid of the above two types
Other Types	A social enterprise of which realization of social purposes, that is difficult to judge on the basis of the ratio of employment or provision of social service.
Local Community Contribution Type	An enterprise which contributes to the improvement in the quality of life of local communities. (newly defined in 2011)

Figure 1: Number of Certified Social Enterprises



(Source: Korea Social Enterprise Promotion Agency)

Table 5: Trends in the Social Enterprise Landscape (2007-2010)

	2007	2010
Total organizations certified	55	514
Total workers employed	2,539	13,443
Disadvantaged workers employed	1,403	8,227
Contribution to total labor force	0.0104%	0.0543%
Total number of social service beneficiaries	26,121	6,562,077
Total number of disadvantaged beneficiaries	17,166	3,890,202
Total volume of income from sales ²⁵	USD 46.4 million	USD 376.5 million
Total net profit	USD 4.6 million	USD 7.1 million
Total non-operating profit	USD 21.3 million	USD 108.4 million

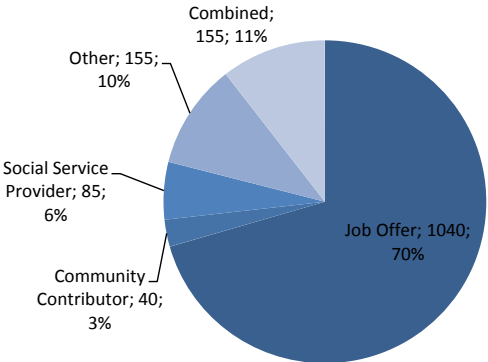
(Source: Matsui & Ikemoto (2015). "Work Together Foundation"(2012), Solidarity Economy and Social Business")

²⁵ Sales from the social business, that excludes subsidies from the government.

Since the commencement of the social enterprise certification system in 2007, 1,606 social enterprises have been certified in South Korea. In the past few years, approximately 260 social enterprises have been certified every year on average. Nevertheless, 1,475 social enterprises remain active as of November 2015, meaning that 131 social enterprises have discontinued their businesses.

A total of 1,040 social enterprises, representing more than 70% of existing social enterprises, primarily focus on job creation for vulnerable groups. As discussed in the History section above, this trend owes to the fact that Korean social enterprises developed as an alternative approach to solving unemployment issues of youth and vulnerable groups. In contrast, only 85 social enterprises, representing 6%, are social service providers, while 155 entities, representing 11%, combine the purposes of creating jobs and providing social services.

Figure 2: Status by Social Objectives



(Source: Korea Social Enterprise Promotion Agency)

To further invigorate the social enterprise sector, the Social Enterprise Promotion Act was amended in 2010. The 2010 amendment focused on a new article to support business development efforts. The Ministry of Labor and local governments jointly created a fund to provide a maximum of USD 70,000 per year to support social enterprises’ business development activities, such as research and development, promotion, marketing, market research, product and service development, client management, etc.

3.2 The Social Enterprise Promotion Master Plan (2013-2017)

In 2012, the second Social Enterprise Promotion Master Plan (2013-2017) was developed.

The plan identified four focus areas: (a) strengthening the sustainability of social enterprises; (b) development of customized support; (c) increasing social enterprises' roles and impact, and (d) enhancement of partnerships between corporations and local communities. Details of each focus areas are as below.

(a) Strengthening the sustainability of social enterprises

- The government began providing consultation services for social enterprises to expand online and offline sales channels, design websites and develop reward systems.
- It enhanced social enterprises' financing channels by classifying them as Small Medium Enterprises (SMEs) and giving them access to government SME-related loans.
- The government set up a social investment fund, which can provide social enterprises with loans in larger amounts for longer periods compared to commercial banks.
- The government started to give social enterprises preferential access to public procurement bidding. With a goal to spend USD 1 billion on social enterprises, each public institution was given a quota of how much and what percentage it should commission services to social enterprises.
- The Public Procurement Center was established to help social enterprises develop products and services suitable for public procurement as well as to give advice on marketing and sales.
- The government decided to gradually reduce the amount of subsidies targeted towards covering personnel costs of social enterprises, while increasing support for business development activities. In order to sustain the employment level of vulnerable groups, the government continues to give financial incentives to social enterprises that employ vulnerable people for more than three years.

(b) Development of customized support

- The government provides consulting services to social enterprises based on their growth stage (start-up, market entering, growth, reorganization).
- The government supports intermediaries that provide social enterprises with specialized services in financial management, sales and marketing, etc.
- Assisting cooperatives to transform into social enterprises is another area the government engages in through consulting services and training programs.
- The government organizes internship programs for young social entrepreneurs and

programs targeting senior professionals.

- By utilizing some universities' high-quality infrastructure, social enterprise leadership and fellowship programs have emerged to promote innovation.
- The government monitors social enterprises in order to enhance and ensure their sustainability.

(c) Expanding the roles and impact of social enterprises

- The government aims to expand the social service sector by implementing policies to increase the roles of social enterprises. For instance, the government revised certain certification criteria so that various types of social enterprises can grow. Examples of this revision include 1) fostering social enterprises that deliver comprehensive employment services, including internship programs, vocational and life skill training; 2) promoting social enterprises that provide other social enterprises with consultation services in financial management, marketing, promotion and distribution, etc.
- The government started to place emphasis on reporting to improve social enterprises' accountability. In turn, the government became more active in publicizing the roles and value of social enterprises.

(d) Enhancing partnerships between corporations and local communities.

- The government implements a campaign called "one corporation, one social enterprise" that encourages corporations to transfer their knowhow in financing, sales and promotions, and other areas to social enterprises.
- The government expanded its social job program so that retired professionals and unemployed senior citizens can work for social enterprises. The target group now covers retired professionals over 50 years old and women developing their careers with more than three-year work experiences.
- The central government cooperates with local governments to encourage local communities demonstrate, sell and promote products and services of social enterprises.
- By supporting social enterprises that involve employees and consumers in decision-making processes, the government promotes building local communities that can generate new jobs and services.

3.3 Ordinance and Regulations for the Promotion of the Social Economy

The Seoul Metropolitan Government enacted the ‘Ordinance and Regulations for the Promotion of the Social Economy’ in 2009 that enhances the ecosystem of the social economy through the implementation of five-year plans.

The purpose of this Ordinance is to contribute to the integration of communities and improvement in the quality of life of residents by enhancing social services and creating new jobs through the promotion of and support to social enterprises and prospective social enterprises in accordance with the Social Enterprise Promotion Act.

4. Key Ecosystem Players

4.1 Overview of Key Players

In South Korea, a wide range of support organizations run by the government, local governments, citizens and corporations operate in the social enterprise ecosystem. The Korea Social Enterprise Promotion Agency (KoSEA), established in response to the Social Enterprise Promotion Act, particularly plays a key role in connecting various stakeholders, including social enterprises, intermediaries and citizens.

Many quasi-governmental support networks also exist at the local government level. For instance, the Seoul Social Economy Network has branches in 19 wards out of Seoul city’s 25 wards. The government, together with the Seoul Social Economy Center and Seoul Social Economy Network, regularly organizes a discussion forum called the “Public-Private Association”.

Many civic-run intermediary organizations play important roles too. The most prominent one is the Work Together Foundation (WT). WT, formerly the National Movement Committee to Overcome Unemployment, was established in 1997 in response to the financial crisis in the same year. It represents one of South Korea’s largest NGOs that addresses unemployment issues. The Committee provided funds to over 5,380,000 unemployed workers and their families, representing 10% of the country’s population, to cover their living costs. Nowadays, WT manages one-stop support centers that provide social enterprises with comprehensive assistance covering certification support, monitoring social performances, education program for managers, low-interest loans, etc.

The private sector also supports social enterprises by providing pro-bono services, in-kind donations and patient capital.

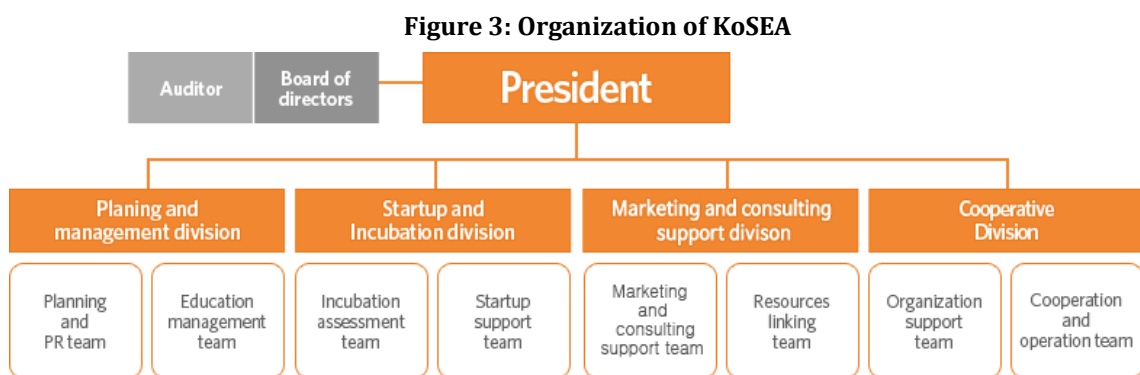
Table 6: Key Ecosystem Players

		Competitions/ Open innovation	Training	Incubation/ Acceleration	Research	Finance	Co-working	Activity
Public Support Organizations/Programs								
Korea Social Enterprise Promotion Agency		x	x	x	x	x		Coordinates partnerships between social enterprises and the government. Provides support to social enterprises.
Seoul Social Economy Support Center			x	x				Implements projects on education, R&D, local revitalization, sales expansion etc.
Private Support Organizations/Programs								
SEEDS				x				Fosters young social entrepreneurs, help them develop business models.
Social Economy Law Center				x				Some law firms provide legal advice to social enterprises via the Center.
Financial Support Organizations/Programs								
Seoul Social Investment Fund						x		Provides grants and low-interest loans to social investment institutions, social enterprises and share house projects, etc.
Work Together Foundation			x			x		Manages one-stop support centers that provide social enterprises with various assistance, including certification support, education programs and low-interest loans.
Happiness Sharing Foundation						x		Established by the SK Group. Conducts various activities which promote social enterprise establishment and ecosystem building.
D3 jubilee				x		x		Invests in social enterprises, builds partnerships between investors and social enterprises, and sends mentors.
Social Solidarity Bank						x		Provides micro credits to support the poor to start micro-enterprises.

4.2 Details of Select Players

4.2.1 The Korea Social Enterprise Promotion Agency (KoSEA)

The Korea Social Enterprise Promotion Agency (KoSEA) is a key intermediary organization that was established in 2011 following the enactment of the Social Enterprise Promotion Act. KoSEA employs about 60 staff members, most of whom come from the Korean government and the private sector. KoSEA plays two major roles: 1) to coordinate partnerships between social enterprises and the government; 2) to provide social enterprises with direct support. In order to serve these roles, KoSEA consists of four divisions as displayed below.



(Source: Korea Social Enterprise Promotion Agency)

KoSEA assesses and certifies social enterprises based on the definitions set forth by the Social Enterprise Promotion Act. For those entities that don't satisfy the certification criteria yet aim to do so in the future, a special label of "preliminary social enterprises" has been defined by certain local governments. KoSEA also provides the following support to registered social enterprises.

(a) Financial support

- Subsidies for personnel expenses
- Subsidies to supplement the payment for specialists
- Subsidies for paying social insurance fees
- Subsidies for business development activities
- Financial instruments such as investments and loans
- Tax exemption

(b) Management support

- Management consulting

- Support for network building
- Identification of new business models

(c) Other kinds of support

- Preferable public procurement
- Social entrepreneur academy

Also, KoSEA, together with a corporation, is currently developing Social Impact Assessment indicators, with about 70 to 80% complete. For instance, SK Corporation utilizes these indicators to select its investees, while some financial institutions use them for due diligence of potential borrowers.

4.2.2 The Seoul Social Investment Fund

The Seoul Social Investment Fund was established by the Seoul Metropolitan Government and the Korea Social Investment in 2012. Its initial capital constitutes of Seoul city's USD 500 million plus an additional USD 30 million contributed by the private sector. The fund engages in a variety of socially oriented initiatives: providing loans for social enterprises and other projects including social housing; investing in social impact bonds; and fostering partnerships with social finance Intermediaries.

4.2.3 The Seoul Social Economy Support Center

The Seoul Social Economy Support Center as an implementing body for projects that the Seoul Metropolitan Government commissions to the Seoul Social Economy Network. Its annual budget averages about USD 30 million. In terms of human resources, the Center employs about 20 full-time staff, 20 contracted staff, as well as another 20-30 interns receiving salaries from the government for a period of two years.

Under the Seoul Metropolitan City Framework Ordinance on Social Economy, the Center has a total of ten objectives to build a sound ecosystem for the social economy. It mainly engages in projects on education, local revitalization, and sales channel development.

(a) Training

- Develop human resources for social economy and develop social enterprise and its commercialization
- Promote and develop an education support ecosystem to vitalize the social economy

(b) Incubation and acceleration

- Foster collaboration among companies in the social economy; develop and manage networks in various industries and geographies
- Provide professional consultation to establish and manage ventures in the social economy.

(c) Research

- Provide consultation and adjustment of policies related to the social economy and comprehensive support to organizations operating in the social economy
- Deliver support to establish master plans
- Conduct research on public assistance and policies to vitalize the social economy

(d) Others services

- Monitoring and Evaluation of organizations in the social economy
- Provide support to create a social economy market
- Other necessary work to vitalize the social economy and to develop an ecosystem

4.2.4 The Private Sector and Corporate Social Responsibilities (CSR)

Private companies also support social enterprises through pro-bono services, in-kind donations and providing patient capital. Pro-bono activities, In-kind donations and Patient Capital are mainly implemented as CSR by large enterprises in South Korea. There is a group of such large enterprises named “Thirty big enterprises” that has Samsung, Hyundai, SK, LG, Lotte, Posco, Hanwha, KT. Public corporations including Korea Electric Power Corporation, Korea Expressway Corporation provide those supports mainly through In-kind donations. However, on the other hand, middle and small sized corporations have not proactively supported the followings.

(a) Pro-bono activities

Social enterprises experience challenges in areas of business management, human resource management, accounting and designing partially because they cannot afford to employ many specialists. Given this situation, some private companies send their staff to provide consulting services to social enterprises. The Social Enterprise Promotion Agency helps in this area by managing a database of specialists and developing a talent pool. According to the Social Enterprise Promotion Agency, employees of large corporations derive satisfaction out of participating in such pro-bono activities. Few even start their own businesses after these pro-bono experiences. The modality of pro-bono varies from company to company: some give incentives to employees to participate in pro-bono activities, while in other workplaces employees conduct pro-bono activities within their

working hours and thus need permission from their supervisors.

(b) In-kind donations

Certain large corporations provide office facilities to social enterprises. For example, a social enterprise can open a multi-cultural café in a corporate office and employ people with disabilities. This has proven to be a financially viable model in some cases.

(c) Patient Capital²⁶

Private sector players like the SK Group provide patient capital to social enterprises.

5. Examples of Social Enterprises

Table 7: Examples of social enterprises in South Korea

Name	Legal Format	Year established	Description	Website
Delight	Corporation	2010	Manufacturing and distribution of affordable hearing aids	www.delight.co.kr
Woozoo	Corporation	2013	Design and management of shared houses in Seoul for solving “living poor” issue for youth	www.woozoo.kr
CUSP	Corporation		Design and print services employing disadvantaged people	www.ppia.co.kr
Mercy juice	Corporation	2014	Production and sales of 100% natural fruit juice. It plans to become a farmers cooperative and directly run stores.	mercyjuice.com
BIG HANDS	Nonprofit	2012	Café employing people living with HIV/AIDS. Beside the café area, there is a space for people to interact and have meetings and events.	www.bighands.or.kr
Travelers’ MAP	Corporation	2008	Develop and design tourism which revitalizes local communities.	www.travelersmap.co.kr
MEZZANINE I-PACK	Nonprofit		Creating jobs for North Korean defectors and vulnerable people.	www.m-box.co.kr
Chungnam Educational Research Institute	Cooperative		Providing educational manpower to rural communities, and schools	plus.cnu.ac.kr/html/en/sub06/sub06_0601.html

²⁶ Funds invested for medium or long term (generally for 5 to 10 years).

Hongseong Pulmu Nanumi Farming Cooperative	Cooperative		Exchange programs between urban and rural areas to raise the quality of eco-friendly agricultural products	www.socialenterprise.or.kr/eng/info/example_loc.do
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6. Final Reflections

6.1 A well-defined social innovation sector developed by the government's strong leadership

South Korea has the most advanced policy environment for social enterprises in the region. The Social Enterprise Promotion Act adopted in 2007 represents the most significant milestone for the South Korean ecosystem development. In order to address the growing social issues such as aging population, income disparity, and especially rising youth unemployment, the country could no longer rely solely on the government and the private sector. The Act aimed to create social enterprises that generate jobs as well as provide social welfare services to vulnerable populations. In this context, the South Korean government established a legal format for recognizing social enterprises through its certification system. Once certified, a social enterprise can enjoy preferential access to various kinds of support. The Seoul Metropolitan government is also playing an influential role in implementing initiatives to promote social enterprises not only for job creation but also for social innovation that improve the quality of residents. Under such a supportive policy environment, private ecosystem players spurred, such as intermediaries, universities and corporations.

6.2 Gaps in the Ecosystem, Ways Forward for Social Innovation

While the certification system demonstrates the South Korean government's strong commitment to promoting social enterprises, it comes with adverse effects. Some criticize that the directly subsidizing social enterprises' personal expenses is damaging their sustainability. Indeed, some social enterprises face difficulties in continuing their businesses after they graduate from the three-year payroll subsidy program. Consequently, the government has shifted its focus to support social enterprises to become less dependent on government subsidies, more financially sustainable, and more competitive with existing traditional businesses. For example, the government began providing consultation services for social enterprises' business activities, such as expanding sales channels and designing websites. It also enhanced social enterprises' financing channels by giving them access to government

SME-related loans, government-run social investment fund loans and public procurement bidding, while gradually reducing the subsidies for personnel costs of social enterprises.

The key risk of the South Korean ecosystem is its dependency on the government. The ecosystem may be affected if there are any changes in the leaderships of the central and Seoul Metropolitan government. It is vital that the ecosystem continues to evolve with a more diversified set of players across different sectors, including the business sector, with capacities and resources to support social enterprises.