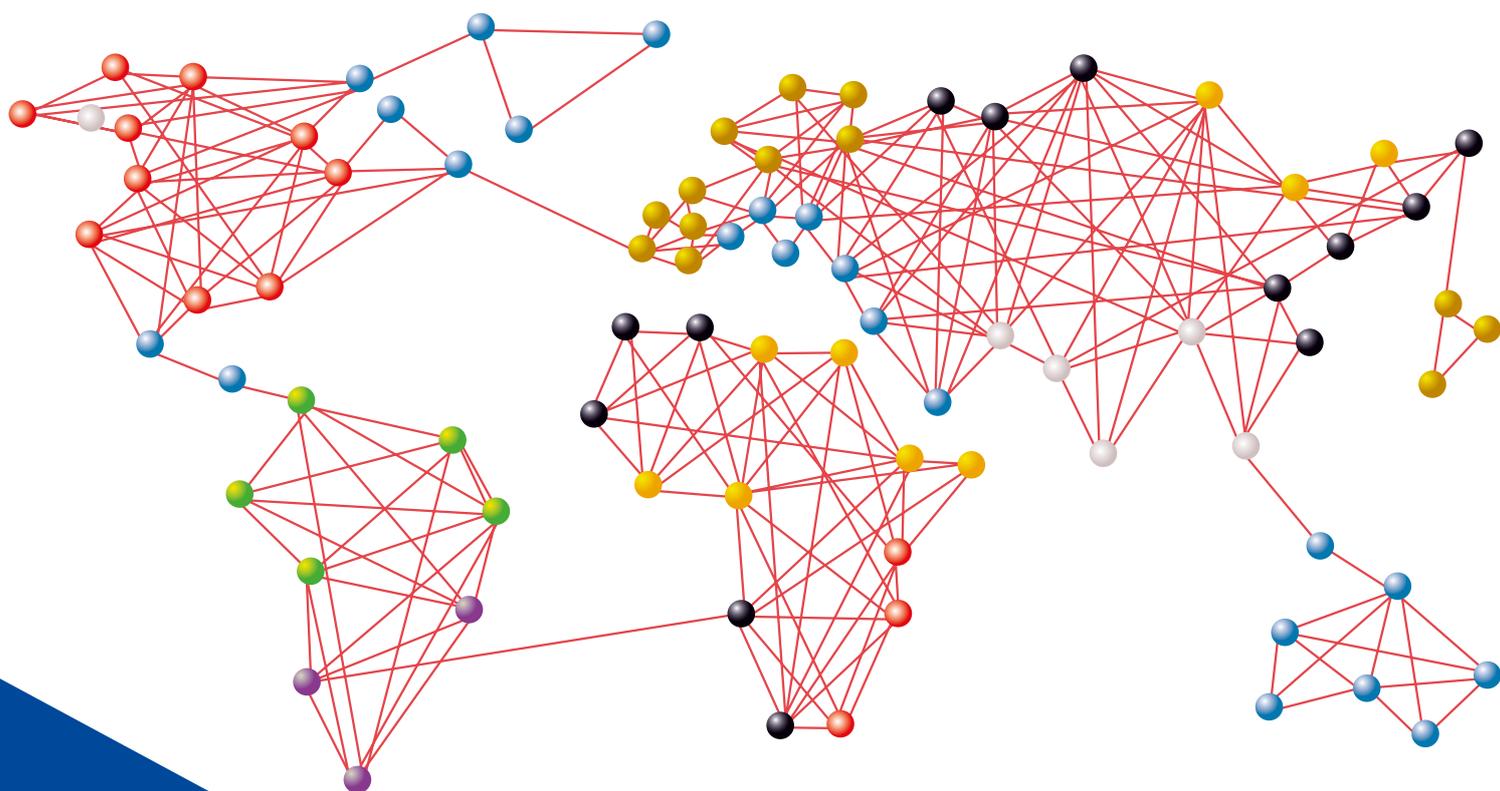




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► **Financial mechanisms for innovative social and solidarity economy ecosystems:  
The case of the Republic of Korea**



# Financial mechanisms for innovative social and solidarity economy ecosystems: The case of the Republic of Korea



Jonghyun Park

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First published 2021

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*Financial mechanisms for innovative social and solidarity economy ecosystems: The case of the Republic of Korea*

International Labour Office. - Geneva: ILO, 2021 1 v.

ISBN: 978-92-2-035838-2 (print)  
978-92-2-035839-9 (web PDF)

*ILO Cataloguing in Publication Data*

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Coordination by: Roberto Di Meglio, Valentina Verze (International Labour Organization); Samuel Barco, Riccardo Bodini, Michael Roy, Gianluca Salvatori, (EURICSE)

Design and layout by the International Training Centre of the ILO, Turin – Italy

# ► Abstract

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This paper is organised into four sections. The first section describes the social and solidarity economy (SSE) ecosystem in the Republic of Korea, with a focus on its roots and drivers, the main actors and stakeholders involved and the policy framework that regulates it. The second section examines the main financial mechanisms available to SSE organisations in the country, analysing their features and

providing specific examples. The third section looks at the impact of the COVID-19 crisis, both in terms of its effects on SSE organisations and the potential role of the SSE in recovery efforts. Finally, the fourth section provides some policy recommendations on the issue of finance for the SSE, in particular, and for strengthening the SSE ecosystem in the Republic of Korea, in general.

## About the Author

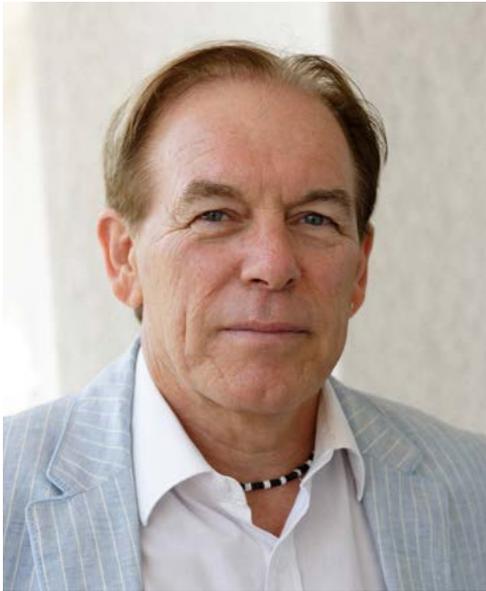
Jonghyun Park graduated from Yonsei University with a doctorate in economics. He is an economics professor at Gyeongsang National University in Korea, where he teaches and researches on money and finance, history of economic thought and social and solidarity economy.

## Acknowledgments

I would like to thank Hoon Hong, Hanseok Suh, Chung Sik Yoo, Jongick Jang, Wonkeun Song, Taeyoung Yoo, Kyu Sang Lee, Eun Sun Lee for being companions in Learning, sharing friendship and reciprocity. And I would like to express my gratitude to Laurance Kwak, Gunna Jung,

Taein Jung, Kyong Yong Song, Jong Gul Kim, Hyungmi Kim, Won-Gak Jeong, Hyewon Kim, Ilcheong Yi, Eunae Lee, Jin Kyung Choi, Sangjin Lee for their help in researching Korea's social and solidarity economy and writing this paper. I would also like to express my sincerest thanks Roberto Di Meglio, Valentina Verze, Riccardo Bodini, Samuel Barco, Gianluca Salvatori and Michael J. Roy for their support in the Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems research project and, in particular, to Riccardo Bodini of Euricse for his coordination. Finally, I am grateful to Charles Bodwell (ILO), Dong Eung Lee (ILO), Jungyeon Bae (Korea Enterprises Federation) and Seonja Hoang (Federation of Korean Trade Unions) for thoroughly reviewing this paper and for providing insightful suggestions.

## Foreword



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Gianluca Salvatori  
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The social and solidarity economy (SSE) is receiving increased attention for its role in addressing a variety of economic and social challenges, ranging from the future of work to the provision of social services. This role is particularly important in light of the COVID-19 pandemic, which has aggravated existing social problems, generated a major economic crisis and generally brought in sharp relief the need to reimagine many of the underpinnings of our economy and way of life. In this context, the organisations that compose the SSE, characterised by a strong focus on addressing basic human needs and a close alignment with the interests of the communities in which they are located, can be a major asset and one of the pillars on which to build post-COVID-19 recovery efforts.

As public and private institutions seek ways in which the SSE can be supported and developed, the availability of financial resources has been identified as a key lever for expanding the capacity of SSE organisations. Indeed, as SSE organisations engage in the production of goods and services, finance is important for them as it is for many other types of enterprises; it can help cover start-up costs, address cash flow issues, fund investments and so on. What is less clear is the extent to which SSE organisations have more difficulties than traditional enterprises in accessing financial resources, the kinds of financial resources that should be available to them, the purposes of using these resources and the ways in which such resources can be accessed. While there has been much discussion on these topics, empirical evidence remains scant.

To answer some of these questions, in 2018, the International Labour Organization (ILO) commissioned to Euricse a study entitled, 'Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems'. The project, funded by the Luxembourg government, was structured in three stages. First, it developed a comprehensive overview of possible financial sources and mechanisms through which these resources could be accessed, both traditional and innovative, generic and tailored to the specific characteristics of SSE organisations. Second, with the help of national researchers, the project investigated how SSE ecosystems are structured and the kinds of financial resources SSE organisations use in eight countries around the world.

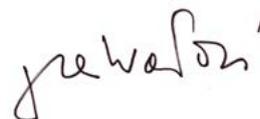


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Finally, it conducted a comparative analysis of the findings to tease out cross-cutting themes and overarching issues and to develop a list of policy recommendations.

The national case studies that were developed in the context of the Financial Mechanisms project, in addition to being instrumental in developing the insights presented in the final report (ILO, 2019), are valuable pieces of research in their own right and are now available as free-standing documents. This report presents the analysis conducted in Republic of Korea, which has been updated to reflect the latest trends and data and with the addition of a set of observations on the impact of the COVID-19 crisis and the role of the SSE in post-COVID-19 recovery efforts.



**Gianluca Salvatori**

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## ► Introduction

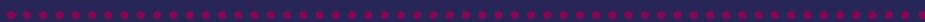
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Although Korea's social and solidarity economy (SSE) has a shorter history than that of other Western countries, it has achieved compressed growth, thanks to the voluntary self-help movement of the civil sector and the active support of the government. In the process, the SSE has achieved considerable results, such as creating good jobs, providing quality social services and deepening social capital at the local level, but there is still a long way to go. This paper will examine the historical roots of

the SSE in Korea and how it has expanded its influence. It will also investigate in detail the role of finance in the development of the SSE. Major players and representative financial mechanisms that make up the social finance ecosystem will be reviewed, and notable best practices will be introduced and analysed. The paper will also look at the role of the SSE and social finance in the context of COVID-19 and present policy recommendations for future development.



# 1. The Social and Solidarity Economy Ecosystem in the Republic of Korea



## 1.1. Main trends and issues in the Republic of Korea

The Republic of Korea has achieved remarkable success in combining rapid economic growth with significant poverty reduction. The country had an average annual gross domestic product growth of 7.3% between 1960 and 2019. Korea's gross national income per capita increased rapidly from US\$67 in the early 1950s to over US\$30,000 in 2018 (World Bank, 2020).

However, the country's outstanding growth over the past decades did not fully translate into high well-being, notably in terms of perceived health, environmental quality and work-life balance. Income inequality remains relatively high because of wage dispersion and limited redistribution. Old-age poverty is still high. More than 40% of people aged 65 and above live in relative poverty, which is the highest rate amongst Organisation for Economic Co-operation and Development (OECD) countries. Air pollution is also a major issue in the Republic of Korea (OECD, 2020).

Another problem facing Korean society at present is the poor business environment of self-employed businesses. While some large corporations represented by *chaebols* (family-based Korean conglomerates), such as Samsung and Hyundai Motors, boast global competitiveness, small and medium-sized companies are far behind in terms of quality of work, sales revenue and profit. In particular, self-employed businesses face a difficult situation, such as excessive competition in a saturated, limited market.

The polarisation of Korean society has also been confirmed between regions. The gap between Korea's per capita gross regional products measured by the Gini coefficient is high amongst 30 OECD countries. The difficulty

of accessing high-quality social services is one of the challenges that Korean society must address. In response to these issues, the new government started implementing a comprehensive economic programme to address low growth and worsening income inequality in the country. The programme focuses on income-led growth, job creation, fair competition and innovation and is an important step in fostering competition and strengthening small and medium-sized companies (IMF, 2018; Policy Planning Committee Growth Strategy Task Force, 2017).

## 1.2. Social and solidarity economy: roots and drivers

### 1.2.1. Emergence of the social and solidarity economy

It has only been recently that the SSE in the Republic of Korea has shown remarkable progress. Its primitive forms, however, have been around for a long time. Some of these include Doore, a joint labour organisation formed by people in production sites, and Gye, which was a kind of lending club among members. Such an informal system at the private and civic levels is a prototype of the SSE. However, this tradition of autonomy and decentralisation has undergone some distortion as a result of Japanese colonial rule. The SSE of the past had undergone a period in which spontaneity declined in the state-led economic development strategy, and SSE organisations became a tool of government policy and a means of maintaining the regime.

In the Republic of Korea, civil society and the state are the two pillars of sustaining the SSE. The Korean SSE has evolved historically through the interaction between the spontaneity of civil society and the active intervention of the state.

The characteristics of the SSE have been very different from one era to another, depending on the nature of the state's power and the capabilities and competencies of civil society.

In the colonial era, Koreans created a consumer cooperative with the belief that they could not be politically independent without economic freedom. It was in the early 1920s that a Rochdale-type consumer cooperation began in Korea (Kim, 2012a). Since Korea's liberation from Japan, the Korean cooperative movement has grown significantly in the primary industry as well, with the active support of the government. Cooperative associations, represented by Nong-hyup (agricultural cooperatives) and Soo-hyup (fisheries cooperatives), significantly contributed to the revitalisation of economic activities for farmers and fishermen through mutual financial projects, the provision of production funds and the purchase of products. It is important to note that Korea's early cooperatives, including the Korea Agricultural Cooperative Federation, had high performance as business entities, but their identity as associations based on the autonomy of union members was weak (Kim, 2012). In this period of co-existence of political oppression and economic development, various attempts were made to restore democracy and improve the lives of the people by developing associations from the bottom up. The most representative trends are the credit union movement, the ecologically oriented local community movement and the urban poor's movement (United Nations Research Institute for Social Development [UNRISD], 2018).

In 1987, with the end of the military regime, many citizens who participated in the democratisation movement began to devote their energy into practicing democracy in their daily lives and promoting public interests and the common

good with fellow citizens. New social solidarity economic organisations emerged from consumer cooperatives, production communities and medical cooperatives. The most prominent type of SSE organisation at that time was Saeng-hyup (federation of consumer cooperatives); *Saeng-hyup* means 'cooperation in daily life' in Korean. Korea's three largest federations of consumer cooperative unions, HanSalim co-op union (1986), Doorae co-op union (1996), and the iCOOP co-op union (1997), were all established at that time. In addition to meeting the economic need of purchasing quality products at a low price, these consumer cooperatives formed a good relationship with producers and devoted themselves to realising various public values related to the environment, labour, poverty and local regeneration (Jeong, 2012).

On the other hand, the democratic-era governments were active in addressing the diverse needs of civil society. The relationship between civil society and public authorities changed gradually. The state still had a powerful influence, but democratisation gave citizens a greater voice than ever before. As a result, various activities to address the specific problems faced by citizens were carried out in the social and economic spheres, and when the effectiveness of these activities was proven, the government made civil society its partner in policymaking and implementation. In this process, high net benefits related to job creation and social service provision through the SSE were identified, and mutual trust was finally established, which eventually led to the Social Enterprise Promotion Act (SEPA) in 2007 and the Framework Act on Cooperatives (FAC) in 2012. Today, President Moon Jae-in's interest in the SSE is very high. The presidential secretariat has established a position of secretary for the SSE and is currently providing various forms of support for the SSE.

### 1.2.2. Quantitative description of the social and solidarity economy

#### Current status of social and solidarity economy organisations in the Republic of Korea

SSE organisations in the Republic of Korea include social enterprises, cooperatives under FAC, village enterprises and self-sufficiency enterprises. As of 2020, a total of 22,036 SSE organisations were in operation, and 137,954 persons were employed by these organisations. The organisations with the largest number of businesses are cooperatives, and the organisations with the highest number of employees are social enterprises.

#### Social enterprises

According to SEPA, a social enterprise is an entity 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 communities while conducting its business activities. Certified social enterprises are categorised into five types according to their main purpose: job delivery, social service provision, contribution to the local community, mixed and others. The department in charge of social enterprises is the Ministry of Employment and Labor. Certification of and support for social enterprises are provided by the Korea Social Enterprise Promotion Agency (KoSEA), a public organisation under the Ministry of Employment and Labor (Choi et al., 2017).

► TAB. 1 Current status of social and solidarity economy organisations

Type of Organisation	Social Enterprise <sup>a)</sup>	Cooperative <sup>b)</sup>	Village Enterprise <sup>c)</sup>	Self-Sufficiency Enterprise <sup>d)</sup>	Sum	Sum <sup>e)</sup>
Number of organisations	2,435	16,869	1,556	1,176	22,036	28,414
Number of employees (persons)	47,322	56,609	20,062	13,961	137,954	304,724

Source: a) Ministry of Employment and Labor (2020); b) Ministry of Economy and Finance (2020); c) Ministry of the Interior and Safety (2021); d) Korea Development Institute for Self-Sufficiency and Welfare (2020); e) Including traditional cooperatives, such as agricultural cooperatives and social ventures (as of the end of 2019, corrected in May 2021)

► TAB. 2 Growth of social enterprises

	2012	2015	2017	2018
Numbers of organisations	774	1506	1877	2,062
Average sales (billion won)	0.89	1.35	1.93	2,06
Total employment (person)	18,297	33,527	41,417	42,742
Average employment (person)	24.4	23.5	22.1	20.7

Source: Joint with the Relevant Ministries (2018); Korea Labor Institute (2019).

As of 2018, the number of social enterprises certified by the Ministry of Employment and Labor is 2,062, which was significantly higher than that in 2012. The average sales per enterprise were 1.93 billion won. The total employment of social enterprises was 42,742, and the average number of employed persons was 20.7. The number of vulnerable employees increased from 11,091 in 2012 to 26,086 in 2018, more than doubling over the years. Between 2016 and 2018, the average monthly salary rose from 1.3 million won to 1.6 million won, and the average working hours decreased from 34.1 hours to 32.9 hours (Korea Labor Institute (2019)).

### Cooperatives

Cooperatives in the Republic of Korea are categorised into individual law cooperatives, such as agricultural co-ops, credit unions and consumer co-ops, and framework act cooperatives under FAC, which are monitored by the Ministry of Economy and Finance. According to FAC, a cooperative is a business organisation that seeks to promote the rights and interests of its members, thereby contributing to local communities by being engaged in the cooperative's purchasing, production, sales and provision of goods or services; a social cooperative carries out business activities related to the enhancement of rights, interests and the welfare of local residents or provides social services or jobs to disadvantaged people in cooperatives but is not run for profit. Cooperatives receive no direct government support in the form of subsidies, unlike other types of SSE organisations managed with government certifications.

Detailed information on the current status of cooperatives can be confirmed through the fourth survey on the status of cooperatives released in 2020 (Ministry of Economy and Finance, 2020). In the Republic of Korea, under the FAC, a survey is conducted every two

years. As of the end of 2018, the number of cooperatives was 14,562. By type, 13,267 for-profit cooperatives, 1,185 social cooperatives and 74 federations were established. The highest number of co-ops was in wholesale and retail trade (22.1%) and education services (15.0%), followed by agriculture (9.4%) and art and sports (9.0%).

The average number of members per cooperative was 67.0, up by 5.4 from the third survey (46.8). The purpose of establishment was chosen in the order of increased income (53.2%), job creation (36.7%) and contribution to the community (35.0%). In terms of employment status, the total number of employed people is 4.3 million, and the average number of employed people is 6.1, up by 0.8% from the third survey. In these cases, the employed comprise employees, unpaid full-time executives and volunteers for actual compensation. The total number of employees was 3.1 million, and the average number of employees was 4.4, up by 0.4% from the third survey. At this time, employees are those who work for more than one hour a week for the purpose of salary, including wage workers and paid executives.

The average sales of cooperatives were 367.64 million won, up by 94.92 million won from the third survey. The average net income was 14.58 million won, up by 10.85 million won from the third survey. Members' contributions averaged 57.44 million won per union, up by 10.49 million won from the third survey. And 29.9% of cooperatives promoted solidarity projects, such as social economic organisations and joint purchases of raw materials, joint sales and joint brands. Cooperatives' community reinvestment activities, such as commodity donations, cash donations, volunteer work and space provision, were estimated to be 26.2 billion won, with an average of 8.99 million won per union.



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The status of each type of cooperative can be summarised as follows. Amongst the cooperatives currently in operation, 63.6% (4,486) are business cooperatives, and 17.6% (1,244) are multi-interested cooperatives. Amongst business cooperatives, the type of joint facility use (46.6%) was the highest, followed by joint distribution and sales (30.7%) and joint brand sales (22.7%). It is said that 43% to 45% of the cost can be reduced, depending on the use of joint facilities or joint sales. The largest number of employee cooperatives was freelance (38.6%), followed by the group type of the vulnerable working class and the conversion type of existing companies. Local business types (40.1%) were the most common in social cooperatives. Regarding the business sector of social cooperatives, learning and education (29.2%) were the highest, followed by social participation and social welfare. The major business partners of social cooperatives were local governments (30.6%) and public

institutions (23.0%) (Ministry of Economy and Finance, 2020).

### *Village enterprises and self-sufficiency enterprises*

Village enterprises are neighbourhood-based groups that revitalise local communities and contribute to local development by providing income and jobs for local people through for-profit activities, which locals lead and engage in by using locally available resources. Village enterprises differentiate themselves from other SSE organisations in that their core mission is to revitalise the local community. In 2010, the Ministry of the Interior and Safety established ministerial implementation guidelines to promote community enterprises. When certified as village enterprises, these groups receive funding for establishment and operation in addition to business-related services, such as business education and accounting support.

As of 2019, a total of 1,556 organisations were operating, and 20,062 people were employed (Choi et al., 2017; Ministry of the Interior and Safety, 2021).

A self-sufficiency enterprise is an economic organisation based on the National Basic Livelihood Security Act (NBLASA) and is operated by the poor, who are the beneficiaries of the NBLASA. If the certification requirement that the total number of beneficiaries be at least one-third of the total number of members is met, the organisation will receive support from the government, including support for personnel expenses, free rent of national land, low-interest business loans and public procurement priorities. The main feature of self-sufficiency enterprises that differentiate them from other SSE organisations is that the beneficiaries who receive subsidies from the government under the NBLASA participate as the main business players. Policymakers expect a larger number of vulnerable people to participate in these self-sufficiency enterprises in order to get out of the one-sided beneficiaries of the welfare system and participate in the labour market. As of 2019, 1,176 organisations were operating, and 13,961 people were participating in self-sufficiency businesses (Choi et al., 2017; Korea Development Institute for Self-Sufficiency and Welfare [KDISSW], 2020).

### **1.2.3. Role and contribution of the social and solidarity economy**

#### *Labour integration of vulnerable groups*

The activities of SSE organisations have often focused on the independence of the vulnerable, and this characteristic is especially prominent in self-sufficiency enterprises, social enterprises and social cooperatives. To some extent, cooperatives seem to have achieved their mission to focus on the employment of women,

the elderly and the vulnerable. According to the fourth survey of cooperatives, women (59.0%) accounted for a greater proportion of the total employment than men did (41.0%), whereas those aged 55 and older accounted for 38.7%. In terms of employment for vulnerable groups, the proportion of the vulnerable was 42.3%, and the number of employees from the vulnerable class increased by 3,581.

#### *Decent jobs*

Social enterprises and cooperatives make it an important goal to provide decent jobs and generate income for local residents. These organisations offer jobs comparable to those of general commercial enterprises in terms of wage level, quality of employment and satisfaction. Especially for cooperatives, it has been confirmed that they provide decent work. The significant effect of the SSE on job creation can be confirmed in the case of Seoul. With the inauguration of a mayor from a civic organisation, the Seoul Metropolitan Government (SMG) recognised the SSE as an important policy tool and promoted it while respecting activists and leaders in SSE areas as key policy partners. The number of jobs in the SSE continued to increase in 2014–2018, creating about 26,000 jobs as of 2018. The number of jobs in 2018 increased 1.6 times compared with that in 2014, and the number of jobs continued to increase compared to sales. By type of social economy organisation, the largest number of jobs was created in cooperatives (Seoul Social Economy Center [SSEC], 2019).

#### *Community development and creating happy local communities*

Researchers have attempted to test whether the SSE generates a positive spillover effect statistically by using the Seoul survey dataset,

which provides observations on the subjective well-being of 45,496 citizens living in Seoul and the size of SSE organisations, which is measured by the number of social cooperatives, certified social enterprises, communal enterprises and active cooperatives belonging to the relevant administrative district. By testing whether the subjective well-being of residents who are aware of the SSE is greater than that of residents who do not recognise the SSE, they identified that the positive relationship between the size of the SSE and residents' happiness seems causal (Jang et al., 2018).

An impressive example of an SSE organisation that has created decent jobs and led regional development is the establishment and operation of a cluster by the iCOOP union of cooperatives. As of 2019, it is Korea's largest consumer cooperative, with 293,812 consumer members, 3,947 employees, 99 member co-ops nationwide and 239 Natural Dream stores nationwide. It generated a turnover of 592.1 billion won (iCOOP, 2020).

### 1.3. Main actors and stakeholders in the social and solidarity economy ecosystem

The SSE ecosystem in the Republic of Korea is composed of various actors and stakeholders, including some intermediary support organisations (ISOs) and public authorities. The most important actors are SSE organisations that pursue their own goals and engage in various economic activities in the region. These organisations are classified into four types according to the legal framework and public support system: social enterprises, village enterprises, self-sufficiency enterprises and cooperatives. In the following section, we look at the various stakeholders who directly or indirectly influence the activities of SSE organisations as part of the SSE ecosystem. The major stakeholders of the ecosystem are broadly divided into the government, public authorities, ISOs, federations or unions, and networks. These categories are further subdivided on a national, regional or sectoral basis.

(Unit: person, number)

► TAB. 3 Current Status of the iCOOP co-operative union in 2019

Consumer members		Employees		Organizations		Infrastructure		Member Gatherings	
Sum	293,812	Sum	3,947	Sum	170	Natural Dream Stores	239	Town meetings	865
Members with monthly membership dues	260,648	Member co-ops	20	Member co-ops	99	Logistic centers	6	Clubs	1,042
Member leaders	2,985	iCOOP business	2,790	iCOOP business	20	Distribution centers	8	Total participants	7,970
Board members of member co-ops	868	Partner firms	1,137	Partner firms	51	Clusters	2		

Source: iCOOP (2020)

### 1.3.1. Government

#### Central government

The role of the central government is crucial for the growth of the Korean SSE. Compared with the governments of other countries, the government of the Republic of Korea plays an active role in supporting SSE organisations. It has systematically fostered the growth of these organisations in cooperation with intermediate support organisations based on a legal framework. The central government has developed legislation for the growth of SSE organisations, fostered public agencies and ISOs that can support them professionally and implemented support policies based on subsidies and consulting through these agency institutions (Choi et al., 2017).

The Ministry of Health and Welfare aims to guarantee a minimum level of life for the poor through self-sufficiency enterprises, the Ministry of Employment and Labor seeks to create and maintain decent jobs through social enterprises and the Ministry of the Interior and Safety actively utilises village enterprises to revitalise communities. The Ministry of Economy and Finance is responsible for overseeing SSE policies and managing cooperatives. The Ministry of Land, Transport and Maritime Affairs is expanding contact with the SSE sector for local revitalisation and with the Ministry of Education for a fulfilled school life of middle and high school students (Choi et al., 2017).

#### Local government

Since the enactment of SEPA in 2007, local government organisations have also enacted bylaws and ordinances to support SSE organisations through management consulting and public procurement. As some of these local governments have begun to design systems of

interdisciplinary and comprehensive support for the SSE, they play an increasingly important role in the Korean SSE, producing a number of remarkable achievements and outcomes. In the early days of the SSE, labour cost subsidies were the most favoured means of encouraging SSE organisations to create jobs for the poor and vulnerable. With growing criticism of the shortfalls of direct fiscal support, today's support comes in the form of indirect assistance from an increasing number of programmes, such as management consulting, training and public relations, financing and marketing (Choi et al., 2017).

In particular, there is a growing emphasis on public procurement preference programmes and specific financial mechanisms for SSE organisations. For example, since 2012, the SMG has increased the public purchase of SSE organisations' products. The Municipal Ordinance on Public Purchases and Marketing Support for the Products of SSE Organisations provides a legal basis for the SMG's procurement of SSE products and services. These changes were led by local governments, especially the SMG; the city was able to actively implement these changes, thanks to its governance structure that allowed SSE actors and stakeholders to actively participate (Kim & Jung, 2016; UNRISD, 2018).

### 1.3.2. Other public authorities

One of the leading public authorities is the KoSEA, which is a public organisation under the Ministry of Employment and Labor. Since its establishment, KoSEA has served as a certification body that qualifies social enterprises by reviewing the activities of SSE organisations; it also acts as an effective arbitrator between the government and the private sector, coordinating opinions and roles regarding policy support programmes and services. KoSEA provides its

own social entrepreneur support programme and organises social venture contests to identify and support aspiring social entrepreneurs. It has established an evaluation and monitoring system to acquire public support and trust in social enterprises (Choi et al., 2017; KSEPA, 2018).

### **1.3.3. Intermediary support organisations**

Another important component of the SSE ecosystem is Intermediary Support Organisations (ISOs), which have a significant level of autonomy from the government and operate independently from both the government and SSE actors. In Korea, a wide range of ISOs run by local governments, citizens and corporations operate in the SSE ecosystem. All the special laws of Social economy organizations and enterprises (SEOE) include clauses for ISOs, because these organisations, which are staffed with many former SSE practitioners, play a key role in empowering SSE actors (Japan Research Institute, 2016; UNRISD, 2018).

#### *Intermediary support organisations at the national level*

An intermediary support organisation operated at the national level is the Central Self-sufficiency Centre, whose name was changed into the KDISSW under the authority of the Ministry of Health and Welfare. The KDISSW is a special corporation under the Ministry of Health and Welfare; it was established based on the NBLSA, and it supports self-sufficiency projects. Its major tasks include development and support of self-sufficiency projects, development and evaluation of projects for rehabilitation, technical and management guidance and evaluation of wide-area self-sufficiency centres and self-sufficiency enterprises, establishment and operation of cooperative systems and information networks between self-sufficiency

organisations, and development and support of self-sufficiency programmes (Central Self-sufficiency Center, 2017).

#### *Intermediary support organisations at the local level*

Intermediate support organisations in metropolitan areas and regions are mostly active in close cooperation with local governments. Let us take a look at the case of Seoul. Intermediary support organisations have established different types of relationships with the government. Some of them are based on contracts with the SMG or district governments. The first ISO for the SSE at the SMG level was the SSEC, which was established in 2013. Although staffed by civil society activists, the SSEC is mainly funded by government resources for the work contracted. Under the SMG Framework Ordinance for SSE, 16 out of Seoul's 25 district governments have established ISOs for SSE organisations in their districts and have recognised SE organisations as an important means of developing local economies and communities (SSEC, 2016; UNRISD, 2018).

#### *Private intermediary support organisations*

In the private sector, there are also civic-run ISOs run by SSE activists and experts. These institutions play a crucial role in helping SSE organisations meet the two goals of expanding democracy in the organisation and enhancing business competitiveness. The most prominent is Sin-na-neun Jo-hab (Joyful Union). Its main tasks include supporting the establishment and certification of social enterprises, business consulting and field support, education for enhancing the capabilities of social enterprises, discovery and diffusion of new social enterprise models and research and policy development, many of which are based on contracts with the government (Joyful Union, 2020).



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It is also worth noting that chaebols, which are large family-owned business conglomerates, and large IT companies have funded social entrepreneurs to establish intermediary organisations and provide a wide range of support services, such as venture capital and office space, at a discounted price to social ventures. The engagement of the private business sector with SE presents both opportunities and risks. The financial resources provided to SSE organisations by private businesses may help reduce the financial dependence of SSE organisations on government funding. At the same time, however, the private sector's emphasis on entrepreneurial criteria when selecting which SEOEs to support may result in the predominance of market-led strategies and risk de-linking SSE organisations from their social and community contexts (UNRISD, 2018).

#### **1.3.4. Federations or unions**

As SSE organisations are generally small, they often enhance their competitiveness and influence through solidarity, cooperation and partnership with other organisations. A

high-level coalition occurs when individual organisations form federations and belong to the federation as members. This trend can be found in many cooperatives, which join together to form unions of cooperatives or secondary cooperatives. According to objective or functional criteria, a union of cooperatives is categorised into business federations and non-business federations. A business federation is a union that concentrates on a part of the functions necessary for the first cooperatives that are members of the union to carry out their business (Kim et al., 2014). Korea's iCOOP Consumer Cooperative Union is a representative business federation that carries out joint purchases, joint logistics and joint manufacturing of goods supplied to its members. On the other hand, the iCOOP Consumer Active is a non-business federation that establishes strategies for the development of cooperative organisations, carries out training activities for members, cooperates with other sector cooperatives and develops policy campaigns to the government. The power of this union has been crucial for iCOOP.

### 1.3.5. Various networks

#### *Networks at the national level*

In the Republic of Korea, actors and stakeholders of the SSE form a network with organisations of other sectors or industries operating in the same region to accomplish their social and economic purposes; they also form a network at the national level to defend their rights and create a policy environment favourable to the SSE. SSE networks at the national level include Han Gi-hyeob Jung-ang Hyeob-uihoe (the Korea Central Council of Social Enterprise [KCCSE]) and the Korea Social Economy Network (KSEN). Amongst the same organisational networks at the local level are the Social Enterprise Regional Council, and in Seoul, the Seoul Social Economy Network is a representative example.

The KCCSE, a nationwide representative organisation of social enterprises, aims to solve marketing and financing problems based on the organised power of the parties concerned and to elicit interest and support from civil society, the government and private companies. The KSEN is a network organisation composed of various organisations working in the SSE sector. It establishes strategies for the development of the SSE and carries out activities to improve the legal system of the SSE and propose policies. The network forms public-private partnerships with the government and the National Assembly based on the active participation by member organisations, which has a significant impact on policy decisions.

#### *Networks at the local level, especially in Seoul*

Seoul has the most active network activity amongst various organisations, and its success in the SSE sector is largely attributed to these networks. One of the most outstanding features of Seoul's SSE is the creation of an ecosystem

based on public-private partnerships, which are backed by a public-private network. In late 2011, shortly after Mayor Park's inauguration, the SMG established a policy network composed of civil society leaders from various SSE organisations. The civil society leaders in this network proposed creating a special group, the Civic Governmental Policy Consultation Council for Social Economy (CGPCCSE). Although the CGPCCSE is neither an organisation with a legal status nor a part of the SMG, with the support of Mayor Park, it has had a significant influence on policymaking for the SSE (Kim & Jung, 2016; UNRISD, 2018).

## 1.4. The social and solidarity economy and the policy framework

### 1.4.1. Policy for supporting the social and solidarity economy at the central government level

The government establishes relevant laws and basic plans for each type of social and solidarity organisation with the aim of growing and expanding the SSE. Based on these legal grounds, each department implements various support policies for each type of SSE organisation. It prepares legal grounds for the certification of SSE enterprises and is developing and implementing basic plans for vitalising the SSE. It also provides direct support, such as support for labour costs, and indirect support, such as tax benefits, inducing priority purchases in the case of public procurement, and policy funds. Policies for cooperative associations are operated based on indirect support. On top of this, the government has established and operated ISOs by region and is pursuing various support policies, such as support for startups, public relations, training of manpower and identification of business models. The key contents of the main programme are shown in the following table.

► TAB. 4 Main policy programmes for the social and solidarity economy in the Republic of Korea

	Self-sufficiency Enterprises	Social Enterprises	Village Enterprises	Cooperatives
<b>Ministry</b>	MW	MOEL	MGAHA	MSF
<b>Legal grounds</b>	NBLSA	SEPA	Special Act on Urban Renewal Promotion Support	FAC
<b>Effective as of</b>	2000	2007	2010	2012
<b>Target beneficiaries</b>	The poor (including those on the NBLSP)	The poor	Local communities	Cooperatives and related citizens
<b>Objectives</b>	Assist the poor to overcome poverty	Job creation and social services	Revitalise local communities	Supplement the market economy through the recognition of a corporate status for cooperatives
<b>Financial assistance</b>	Labour costs (for NBLSP recipients up to 2 years) and initial capital support	Labour costs (including social insurances), management consulting, tax and financial benefits	Facility grants, management consulting, etc. for 2 years (KRW80 million per business)	Consulting, training and PR support
<b>Number of organisations</b>	1,344 (as of December 2014)	1,423 (as of September 2015)	1,249 (as of December 2014)	7,977* (as of September 2015)
<b>Intermediary agencies</b>	1 central agency, 10 regional agencies, 247 local rehabilitation centres	KoSEA (public agency) and 16 regional centres	Community enterprise support centres (non-profit foundations)	KoSEA (public agency) and 16 regional centres
<b>Funding</b>	KRW549.5 billion	KRW155.9 billion (national treasury)	KRW38.8 billion (national treasury)	KRW3.3 billion

Source: Choi et al. (2017)

#### 1.4.2. Policy of the Seoul Metropolitan Government to support the ecosystem

Seoul is the most developed area of the SSE in the Republic of Korea. The development of the SSE in Seoul is partly due to the spatial benefits of the nation's largest city, but it is also attributed to the effectiveness of the city's policy of promoting the SSE. Based on the institutionalisation of public-private partnerships, Seoul focused its policy on fostering the ecosystem of the SSE, which is in stark contrast to the central government's policy of supporting SSE organisations focusing

only on the certification and financial support of individual SSE organisations in a one-way relationship from top to bottom (Cho, 2017).

The SSE public-private partnership pursued by the SMG is fundamentally different from the way in which the central government and local governments entrust some of their projects to the private sector. The public-private partnership system is represented by the CGPCCSE, a governance structure that aims to jointly establish, implement and take responsibility for the operation of the basic direction, business plan and budget of the city's SSE policies.

The operation of the SSEC, an ISO for SSE organisations at a wide-area level in Seoul, took the form of trusting the Seoul Social Economy Network, a network of SSE organisations in Seoul. Unlike the approach of the central government, that of the SMG is innovative in that it gives operating rights to a private social economic organisation with a high sense of mission and expertise. In order to promote the SSE ecosystem at the level of boroughs, the SMG sponsored the establishment of SE support groups and ISOs at

the borough level, which resulted in resource surveys, agenda discovery, organisation of SSE actors, strengthening of public-private governance networking and collaboration (UNRISD, 2018; Kim & Jung, 2016). The SMG has also worked with welfare partnerships, such as linking the expansion of national day care centres with parenting cooperatives and entrusting the operation of the elderly nursing home in Seoul to social cooperatives (Cho, 2017).



▶ 2. Financial Mechanisms:  
A Country-Specific  
Example

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## 2.1. Access to finance in the Republic of Korea

### 2.1.1. *The social finance ecosystem in the Republic of Korea*

The social finance ecosystem consists of demanders of funds, which are SSE organisations that need funds to achieve their social goals; suppliers of funds, which are social investors who provide funds to the SSE; social intermediaries, which serve both the needs of demanders and suppliers of funds; and the social finance infrastructure, a friendly environment that supports the activities of these economic players.

SSE organisations can be categorised into various types depending on the size of the social impact they produce and the degree of structural market failure they face: welfare-oriented, trust, sustainable, commercial and innovative organisations. Depending on the type to which they belong, they differ in both aspects of demand and appropriate means of funding. Social investors can be categorised into various types, including public, charity, mutual aid, civil and commercial. Their investment purposes, objectives, expected profit and risk and loss sensitivity differ depending on their type. The most important role in the creation of a financial ecosystem that can effectively help the use of funds for SSE organisations is played by social finance intermediaries (SFIs), which connect a variety of fund suppliers and demanders. They screen financing projects based on business feasibility, repayment capacity and social value before an investment is carried out. They also monitor whether funds are being used effectively after they are provided. They help by providing various management support services in the event of management difficulties for the funded business, which in turn increases the likelihood of the funds being repaid.

### 2.1.2. *Characteristics of social and solidarity economy organisations' demands for funds*

It is possible to take a closer look at the financial demand characteristics of SSE organisations through surveys and interviews. The most representative is the Survey of Social Enterprises conducted in 2017 on 1,289 certified social enterprises. A total of 361 social enterprises planned to finance their loans with an average of 262 million won; the highest was 50–200 million won (36.8%). By type of certification, the average loan plan for social service providers was the highest at 429 million won. By organisation type, the average amount of loan planned by consumer cooperatives was 938 million won on average, indicating that this group is the most active in financing (Korea Labor Institute, 2017). In response to difficulties in raising external funds, the burden of collateral and guarantees (31.7%) was cited as the most significant challenge.

The characteristics of the demand for funds of the cooperatives can be confirmed in detail through the third survey of the status of cooperatives conducted in 2018. Of the cooperatives surveyed, 73.1% said that they needed additional funds within the next one or two years, whereas 26.3% of the respondents said that they did not need it. Concerning the difficulties of using traditional financial institutions, collateral burden (24.0%) was the most commonly identified. Regarding the use of funds, the demand for operating funds (49.1%) was the highest. In the case of the amount of funds required, less than 100 million won (52.9%) was the highest. In terms of the amount of funds needed by cooperatives seeking funding, 82.5% of the respondents.

(Unit:%)

▶ TAB. 5 Need to finance and difficulties in external financing for coopeatives							
Classificaton	Need to finance within 1-2 years		Difficulties in external financing				
	Yes	No	Collateral burden	Excessive documents	Performance demonstration	Lack of information	Other
Proportion	73.1	26.9	24.0	16.7	16.1	14.9	13.7

Source: Korea Institute for Health and Social Affairs (KIHASA) (2018)

(Unit:%)

▶ TAB. 6 Uses of funds					
Classificaton	Operating funds	Facilities and space funds	Business development cost	Loan for repayment	Other
Proportion	49.1	30.9	17.1	2.5	0.5

Source: Korea Institute for Health and Social Affairs (KIHASA) (2018)

### 2.1.3. Characteristics of social investors

Social investors in the social finance ecosystem may be composed of various types, including public, philanthropy, mutual aid, civil and commercial. Their investment purposes, objectives, expected profit and risk and loss sensitivity differ depending on their type.

#### Public investors

Public investors provide large amounts of catalyst and first-loss capital to SSE organisations and social financial institutions. They lead the creation of a social finance ecosystem by establishing a legal and institutional infrastructure. Public investors include the central government, public institutions and local governments, and they provide funds in a variety of forms, such as subsidies, guarantees, loans and equity investments. First, subsidies are provided by the central government, such as the Ministry of Small and Medium Enterprises and Startups (MSMES) and the Employment and Labor Ministry; public authorities, such as

the Small and Medium Business Corporation (SMBC) and the Korea Social Enterprise Agency; and local governments, such as the SMG. The primary use of this grant is to support the startup of SSE organisations or to reduce the burden of labour costs. Second, loans are generally provided by the Small Business Promotion Foundation, the Small Business Agency and the local government. It is often a policy fund for small and medium-sized companies, not a dedicated fund for SSE organisations. SSE organisations are limited in using them because it is not easy to meet the standards required by the government. The SMG provides low-interest loans to SSE organisations by creating the Social Investment Fund (SIF). Third, the government-affiliated credit guarantee fund and the local credit guarantee fund provide special guarantees for social enterprises and cooperative associations. Fourth, equity investments by public investors include the fund of funds under the jurisdiction of the MSMES. The social finance funds provided by governments and public institutions over the past three years are summarised in Table 7.

▶ TAB. 7 Financial support for public financial institutions				
Category		2018 (KRW billion)	2019 (KRW billion)	2020 (KRW billion)
<b>Loan</b>	Inclusive Finance Agency	2.8	6.3	7.8
	SMEs and Startups Agency	38.6	63.9	91.1
	Small Enterprise and Market Service	4.2	8.5	8.4
	Credit Union	not aggregated	23.7	45.3
	MG Community Credit Cooperatives	aggregated	3.0	11.5
<b>Guarantee</b>	Credit Guarantee Fund	107.7	160.9	165.5
	Local Credit Guarantee Foundation	14.5	16.5	18.4
	Technology Finance Corporation	aggregated	84.1	123.9
<b>Investment</b>	Growth Investment Corporation	19.6	31.1	25.7
	Venture Investment Corporation	6.3	64.5	72.4
<b>Total</b>		193.7	462.5	570.0

\* Source: Financial Services Commission (Social Finance Council). \*\* Credit unions and MG community credit cooperatives are private cooperatives, but their performance is included, as they are members of the council.

It is necessary to include the social finance policy for funding and infrastructure establishment, which was promoted after the creation of the Social Finance Promotion Plan in 2018. The establishment of a social finance infrastructure is notable, including a financial evaluation system for social economy companies (Credit Guarantee Fund), SSE organisations' certification information data base (Credit Information Services) and a survey on the status of SFIs (Inclusive Finance Agency).

### Philanthropy investors

Philanthropy investors provide large amounts of catalyst and first-loss capital to SSE organisations and social financial institutions.

Korea's leading philanthropic investors include the Microfinance Foundation, the Community Chest of Korea and corporate philanthropic foundations under Korean conglomerates. Microfinance Foundation, a government-affiliated organisation, is similar to the Big Society Capital of the UK but has only a small portion of the lending business for SSE organisations. The Community Chest of Korea, the nation's largest fundraising organisation, also provides small funds for the SSE sector. Until now, it is common for them to help SSE organisations and SFIs by providing grants rather than loans or equity investments.

The SK Happiness Foundation, a social contribution foundation established by the

SK Group, is especially notable for its leading innovative experiments. The foundation invested 1.5 billion won in a fund dedicated to social enterprises jointly with the KoSEA, and since 2013 it has expanded its business into impact investment by directly supporting SSE organisations. It provides loans and equity investments to SSE organisations on much more favourable terms than institutional financial institutions do. The foundation and the SSE organisations that receive investments set their management goals for economic and social values together, and incentives, such as reducing interest rates or dividend rates, are provided depending on the level of achievement. The case of the Happiness Foundation has many implications for the future in that it is highly innovative and uses various financial instruments (SK Foundation, 2015, 2016, 2017).

### *Self-sufficiency investors*

Self-sufficiency investors are stakeholders involved in SSE organisations who try to solve their financial needs on their own based on solidarity and cooperation with their members. Korea's leading self-sufficiency investors are the KCCSE and the Social Innovation Fund. KCCSE formed a Solidarity Fund with the money contributed by the members of social enterprises to lend money for urgent business purposes. The KCCSE worked with KoSEA and traditional banks to carry out the work of an intermediate support organisation. The operation of the Social Innovation Fund is being carried out by the Korea Social Innovation Finance, which has received spotlight for its activities (KCCSE, 2018; Kim, 2016; Korea Social Innovation Finance, 2018; Lee, 2016).

### *Civic investors*

Civic investors are those who sympathise with the social values created by SSE organisations

and seek to participate in or sponsor activities by providing financial capital. They are people who do not expect high financial returns but cannot tolerate high risks and are the most important investors in creating a healthy social finance ecosystem if their investments can go into full swing. When many citizens consciously support the activities of the SSE in the form of deposits and investments, the social finance ecosystem can secure a stable foundation. In the Republic of Korea, the channels in which citizens can participate as investors remain limited, except for some credit unions and crowdfunding platforms.

The method of crowdfunding can be summarised as follows. When SSE organisations propose a specific project, the crowdfunding company designs and elaborates on the project and places it on the platform, while citizens invest in the projects posted on the platform. When the project is completed, SSE organisations return the investors' principal and dividend promised in advance. In this process, attracting investment and the possibility of funding success are increased in cooperation with various institutions within the SSE ecosystem. If the funding of these organisations is successful, 2.5 times the amount from the SIF under the SMG is provided at 3%. The catalyst capital will allow crowdfunding companies to provide more money to SSE organisations at lower rates and guarantee higher returns for investors than bank deposit rates. Collaboration with ISOs that help start businesses or provide management consulting also increases effectiveness when selecting and supporting businesses (Joo, 2017).

### *Commercial investors*

Commercial investors provide funds in anticipation of returns above market rates. These include pension funds, mutual funds and private equity funds. Although it is difficult

for them to invest in the SSE sector because of the low expected returns and perceived higher risks, they are the investors who will drastically increase the size of the funding in the SSE sector once constraints are eased.

#### **2.1.4. Social finance intermediaries**

The most important role in the creation of a financial ecosystem for SSE organisations is played by SFIs, which link various fund providers and SSE organisations. By type, there are wholesale SFIs, such as the SIF; support organisation-type SFIs, such as the Social Solidarity Bank and the Joyful Union; region-based SFIs, such as the North Seoul and Dongjak Credit Union; crowdfunding platform-based SFIs, such as OhmyCompany and BPLUS; and impact investment SFIs, such as SK Happiness Foundation and SOPOONG.

##### *Wholesale social finance intermediaries*

Wholesale SFIs promote the inflow of funds into the SSE sector and increase the size of social finance by effectively connecting public investors, philanthropy investors, self-sufficiency investors and civic investors. They perform planning and coordination functions so that the social finance ecosystem can be developed in a healthier and more sustainable manner. They also provide a platform for retail SFIs, which are relatively more in touch with SSE organisations, to share experiences and collaborate with one another. Wholesale SFIs can further develop and disseminate innovative financial instruments and term structures that meet the unique and diverse needs of fund providers and funders by combining multiple financial instruments or designing a layered structure.

Until a few years ago, the SMG's SIF and the Korea Social Investment, which was

commissioned to operate the fund, played the role of a wholesale SFI. Since 2013, Korea Social Investment has been consigned to 55 billion won for four years. With these funds, various financial operations were carried out, including loans for social enterprises, loans for social housing, loans for partnership with SFIs and loans for social impact projects (Korea Social Investment, 2016).

As part of measures to revitalise social finance in 2019, a social wholesale financial institution called the Korea Social Value and Solidarity Foundation (SVS) was launched in the form of a public foundation, with commercial banks, biological cooperatives and financial cooperatives participating as contributors. Over the past two years, the amount of lending and investing money has been 19.4 billion won, and a total of 101.5 billion won will be provided to SSE organisations by combining private investment and policy funds. SVS strives to support retail SFIs, help social investors, promote policy and private financial cooperation, revitalise impact projects, create a social financial ecosystem to promote regional development and spread social solidarity models to cope with the polarisation caused by the COVID-19 crisis (SVS, 2021).

##### *Support organisation-type social finance intermediaries*

Support organisation-type SFIs are the most representative social finance institutions in the Republic of Korea; they started their financial services through microcredit projects in the early 2000s. Around 2010, these SFIs expanded their business scope to include the task of an intermediary supporting organisation that comprehensively assists SSE organisations. The Social Solidarity Bank is a non-profit financial institution that supports the independence of the underprivileged and the development of SSE organisations through social finance. This

organisation carries out microcredit projects for the poor and engages in lending and management support projects for SSOESs, with the funds provided by the SMG and the social contribution foundation of conglomerates and financial institutions (Social Solidarity Bank, 2020).

Another representative SFI in the country is Joyful Union. Its work is largely categorised into social finance, social enterprise support and cooperative support. The social finance activity consists of microcredit projects that support self-reliance by enabling the startup of low-income and credit delinquents and SSE organisations loan projects that support the growth of the SSE sector, which is suffering from undercapitalisation. The Joyful Union participated in the microcredit project organised by the SMG and is lending money to low-income earners with an annual income of 30 million won or less. The organisation also provided funds to SSE organisations by participating in the microeconomic loans of the Microfinance Foundation and loans for partnership with SFIs by the SMG's SIF (Joyful Union, 2020).

#### *Region-based social finance intermediaries*

One of the representative region-based SFIs providing funds to SSE organisations is credit unions, which use the region as the basis for joint bonds. Credit unions have a greater potential to play the role of SFIs than traditional financial institutions in that they are financial cooperatives that promote common interests based on the principle of mutual cooperation. They have a wide range of contacts with potential fund providers because they are engaged in both deposit and loan work, which gives them an advantage over support organisation-type SFIs in terms of funding capabilities. Over the years, they have lost their differentiation from traditional financial institutions because of a process of demutualisation. However, several

attempts have been made to restore their identity as cooperatives through financial projects targeting local communities and the SSE sector. Amongst them are the North Seoul and Dong-jak credit unions (Lee, 2016; Jeon, 2016; Park, 2016).

#### *Self-sufficiency-based social finance intermediaries*

Self-sufficiency-based SFIs include Korea Social Innovation Finance, which manages the Social Innovation Fund, a self-sufficiency fund. Korea Social Innovation Finance is engaged in fund management, consulting and strengthening the social finance infrastructure as its major business areas. Based on its experience in creating and operating the Social Innovation Fund, it has been commissioned to operate the Cooperative Social Network Fund in the Seoul Gwang-jin-gu district, the Development Fund of the Catholic SSE Alliance and the SSE Innovation Fund in Dae-gu city government. In this process, Korea Social Innovation Finance provides stable financing and non-financial services to SSE organisations through relational financing. It also provides consulting services to its members. It has created a customised fund management system for the Self-sufficiency Solidarity Fund of self-sufficiency enterprises (Korea Social Innovation Finance, 2018).

#### *Impact investment social finance intermediaries*

The last type of SFIs is impact investment institutions. These institutions adopt an impact investment approach that aims to effectively address social issues by actively utilising market principles and focusing limited resources on well-performing SSE organisations. They prefer equity investments, convertible bonds and subordinated bonds to simple loans, and they combine various investment instruments to increase the incentive for investments on

diverse fund providers with different risk return profiles. In the Republic of Korea, there are about 20 impact investment institutes, including the SK Happiness Foundation, SOPOONG and HGI; the accumulated impact fund is estimated to be about 550 billion won as of the end of 2020 (Do, 2021).

## 2.2. Overview of the main financial mechanisms

### 2.2.1. Financial mechanism in the social and solidarity economy ecosystem

#### Grants

Grants are categorised into public- and private-based grants. Subsidies based on public funds are provided by central governments, such as the MSMES and the Ministry of Employment and Labor; public authorities, such as the SMBC and KoSEA; and local governments, such as the SMG. The largest government subsidy for the support of SSE organisations is provided by the Social Entrepreneur Fostering Project and the Social Enterprise Financial Support Project carried out by KoSEA. Social entrepreneurship-promoting projects support SSE organisations wishing to start a business with a starting capital of between 10 and 50 million won, which should be spent only for business purposes. At this time, spaces for startups, mentoring and education programmes are also provided.

Private grants are mainly provided by large conglomerates seeking to contribute to society and are related to companies' CSR activities and public relations marketing. They are categorised into indirect support, which is linked to non-profit ISOs or SFIs, such as the Working Together Foundation, the Social Solidarity Bank and the Joyful Union; and direct support, which is directly managed by these large companies.

#### Guarantees

The main reason for the low inflow of private funds into the SSE sector is the high risk of investment. It is necessary to secure a sustainable fundraising infrastructure by providing the sector with guarantees, another form of catalyst capital, to increase the supply of private funds. The Korea Credit Guarantee Foundation is currently providing special credit guarantee products to cooperative and social enterprises in partnership with traditional financial institutions. The state-run Korea Technology Finance Corporation provides guarantees to companies with high technological prowess, even if they have little collateral (A Coalition of Related Ministries, 2018).

#### Loans

There are two forms of loans government and private. Government-funded loans are categorised into central and local government-funded funds. The central government's policy funds include those run by the SMBC and the Small Business Corporation (SBC). These funds are aimed at supporting small businesses and small business owners, not separately considering SSE organisations. Many point out that SSE organisations have different characteristics from ordinary small and medium-sized companies and small-sized business owners, making it difficult to meet the loan standards set. Local governments are also offering policy funds to small and medium-sized companies in the region. There are very few cases of dedicated policy funds for SSE organisations, except for Seoul. The SMG is offering loans specialised to SSE organisations through the SIF.

Private funded loans are being provided by philanthropists, including the Microfinance Foundation and other non-profit foundations affiliated with large companies, self-sufficiency

investors and region-based financial institutions. Meanwhile, the loans provided by the self-sufficiency fund are mainly used to meet the short-term emergency funding needs of the member companies. The various self-sufficiency financing mechanisms, such as the advance

payment scheme and borrowing for expanding businesses, used by iCOOP are also part of the loan, which is provided by members (see 2.3.2 for a detailed description of the financial mechanisms used by the iCOOP cooperative group).

► TAB. 8 Summary of loans offered to social and solidarity economy organisations

Classification	Providers	Targets	Purposes	Offer Limit (KRW million)	Interest rates (%)	Maturity (year)	Serving Amount (KRW billion)
Policy loans for small and medium-sized enterprises	SMBC (public)	SME, social enterprises, cooperatives	support for facility and operating fund	500 (operating fund), 5,000 (facility fund)	Policy fund base rate (2%–3%)	5–8	
Policy loans for small businesses	SBC (public)	business owners with less than 10 full-time employees	support for management stabilisation fund	70	Policy fund base rate + 0.6%	5	
Social Investment Fund	Seoul Metropolitan Government (public)	SSE organisations	support for facility and operating fund, scaling-up of SSE organisations	200–2,500	0–2	5	20.7 (year 2016)
Microfinance Foundation social enterprises support	Conglomerates and five banks (private, philanthropic)	social enterprises	support for facility and operating fund	100	3–4	5	
KCCSE Solidarity Fund	KCCSE (private, self-sufficiency)	member SSE organisations	support for short-term operating fund		1–4 (overdue rate, 18%)	1–2	1.55 (year 2016)
Social Innovation Fund	member SSE organisations (private, self-sufficiency)	member SSE organisations	support for short-term operating fund	Maximum of five times the contribution		1–2	0.43 (year 2018)
iCOOP advance payment scheme	members (private, self-sufficiency)	farmer partners	ensuring farmers' production funds		2% (point system)	up to the point of purchase	117
iCOOP borrowing scheme from members	members (private, self-sufficiency)	member organisations in the union	funding for expanding businesses		bank deposit rate + 2%–3%	1–5	65 (year 2018)

## Equities

In Korea, equity investments in SSE areas are rare compared with other financial mechanisms, which can be categorised into government- and private-led impact investments. In Mo-tae Fund (fund of funds), the government makes initial investment first, and the private sector, such as corporate foundations, joins as an additional investor to invest in social enterprises. Investment management firms select companies to invest in, monitor these selected enterprises and provide management support if necessary. The Ministry of Employment and Labor enhances the competitiveness of a company subject to investment by providing subsidies that will be used for labour expenses and business development expenses, together with management consulting. KoSEA provides data that can determine whether these companies achieve their social goals. The investors are paid dividends when the companies generate profit, and they also benefit from corporate publicity by using the social values generated by the social enterprises.

Impact investing is a useful fundraising method for innovative social enterprises and social ventures. This system provides consulting functions that meet the specific needs of SSE organisations, as well as raises funds

in the capital market. At the private level, equity investments are also being carried out with impact investors, such as SK Happiness Foundation, SOPOONG and HGI. They evaluate both economic and social values and provide SSE organisations with a longer-term patient capital based on more favourable terms than existing financial institutions do.

To sum up, the sources of funding available to the Republic of Korea's SSE organisations today can be categorised into grants, loans and equity investments. In the startup phase, subsidies and investments are mostly made. These are provided with subsidies, such as Social Entrepreneurship Fostering Projects and Cooperation Support Projects for small businesses, and investments from impact investment intermediaries, such as SOPOONG; there is also a space support project for village businesses in the form of loans. The social finance sector mostly provides loans, which are concentrated in the growth phase. The most active activities are the SIF by the SMG, the KCCSE Solidarity Fund and the Social Innovation Fund provided by self-sufficiency investors, and the Social Solidarity Bank and the Joyful Union as SFIs. However, the amount of money provided is not large enough to meet the needs of SSE organisations, and there are not many financial instruments available.

**FIGURE 1. Financial mechanisms within the social finance ecosystem**

	Startup phase	Growth phase	Stabilisation phase
<b>Equity</b>	SOPOONG	SK Happiness Foundation, HGI Fund of Funds	
<b>Loan</b>	SMBC Policy Fund Social Innovation Fund, KCCSE Solidarity Fund SMG Social Invest Fund Social Solidarity Bank, Joyful Union Village Enterprise Space Support Project Credit Guarantee Foundations, KTFC		
<b>Grant</b>	Social Entrepreneur Fostering Project SBC Cooperation Support Project Social Venture Contest	Professional Human Resources Support Project	

Source: Seoul SSE Center (2016)

### 2.2.2. Current status of the use of financial mechanisms by social and solidarity economy organisations

#### Social enterprises

Social enterprises are much more dependent on debt than on equity capital. Let us take a closer look at the current debt status of social enterprises and their use of financial instruments through the Survey of Social Enterprises in 2017 (Korea Labor Institute, 2017). The average debt of 578 certified social enterprises was 382 million won. Amongst the

respondents, the share of social enterprises with debt exceeding 200 million won (35.5%) was the highest.

The debt details of these social enterprises were in the order of loans from traditional financial institutions (45.6%), borrowing from acquaintances or private loans (14.5%), policy loans for small and medium-sized enterprises (10.5%) and special credit guarantees for social enterprises (8.2%). The share of each type of loan in the overall loan was in the order of private SFI-led loans (4.5%), public-based loans (2.7%) and private self-sufficiency loans (1.9%).

(unit: million won, %)

► **TAB. 9** Current status of debt in certified social enterprises

Social enterprises	Total amount of debt(As of the end of 2016, N=578)					
	Average (million won)	Less than 10 million	10 million ~ 30 million	30 million ~ 50 million	50 million ~ 200 million	Over 200 million
<b>Total</b>	382	4.3	13.5	11.9	34.8	35.5

Source: Korea Labor Institute (2017)

(unit: response, %)

▶ **TAB. 10 Detailed items of certified social enterprises**

<b>Debt</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Traditional financial institutions loan	425	45.6
Borrowing from acquaintances or private loan	135	14.5
Policy loans for small and medium-sized enterprises	98	10.5
Special credit guarantees for social enterprises	76	8.2
Loans from social finance intermediaries	28	3.0
Local government-based loan	25	2.7
Corporate bond	19	2.0
Social finance institutions	14	1.5
Social enterprise sharing guarantees	14	1.5
KCCSE Solidarity Fund	9	1.0
Large conglomerate CSR loan activities	9	1.0
Social Innovation Fund	8	0.9
Korea Technology Finance Corporation guarantees	5	0.5
Microfinance Foundation social enterprises support	5	0.5
Others	31	3.3
Unknown	31	3.3
<b>Sum (N = 588)</b>	<b>932</b>	<b>100</b>

Source: Korea Labor Institute (2017)

It is necessary to look specifically at the status of equity investment in social enterprises. It is common for social enterprises to rely more on loans than on equity. This is also confirmed by the Survey of Social Enterprise in 2017. Of the total 1,289 enterprises surveyed, only 72 reported receiving outside investment. Looking at the detailed investment status of certified social enterprises, it was in the order of acquaintances (30.1%), followed by crowdfunding (24.7%). In terms of private equity investments, the role of the SK Happiness Foundation is notable.

It is also necessary to take a closer look at the types of financial mechanisms Korea's social enterprises are prioritising in the current financial ecosystem. The most preferred financial mechanism by social enterprises was policy loans for small and medium-sized enterprises (44.3%), followed by special credit guarantees for social enterprises (12.7%) and traditional financial institution loans (10.0%).

(unit: response, %)

▶ TAB. 11 Detailed investment status of certified social enterprises

Investment mechanisms	Frequency	Percentage (%)
Acquaintances	22	30.1
Crowdfunding	18	24.7
Motae Peon-deu (fund of funds)	9	12.3
SK Social Progress Credit	6	8.2
Social venture capital	6	8.2
Shareholders' contribution	2	2.7
University	2	2.7
Municipal office of education	2	2.7
SK Happiness Foundation	3	4.1
Others	19	26.0
Unknown	2	2.7
<b>Sum (N = 73)</b>	<b>91</b>	<b>124.7</b>

Source: Korea Labor Institute (2017)

(unit: response, %)

▶ TAB. 12 Priorities of social enterprises to financial mechanisms

Financial mechanisms	1st priority		Sum of 1st to 5th priorities	
	frequency	Percentage	frequency	Percentage
Policy loans for Small & Medium sized Enterprises	160	44.3	164	22.3
Special credit guarantees for social enterprises	46	12.7	104	14.2
Traditional financial institutions loan	36	10.0	96	13.1
Microfinance Foundation Social Enterprises Support	19	5.3	19	2.6
Crowdfunding	17	4.7	40	5.4
Borrowing from acquaintances or private loan	17	4.7	47	6.4
Social Innovation Fund	11	3.0	28	3.8
Loans from Social finance intermediaries	8	2.2	58	7.9
Social enterprise sharing guarantees	7	1.9	18	2.5
Motae Peon-deu (Fund of funds)	7	1.9	13	1.8
Local government-based loan	6	1.7	24	3.3
issue of new shares	5	1.4	15	2.0
Large conglomerate CSR loan activities	5	1.4	27	3.7
Social venture capital investment	4	1.1	12	1.6
KCCSE Solidarity Fund	4	1.1	32	4.4
Others	9	2.1	37	4.9
<b>Sum</b>	<b>361</b>	<b>100.0</b>	<b>734</b>	<b>100.0</b>

Source: Korea Labor Institute (2017)

## Cooperatives

Details on the status and characteristics of cooperatives' use of financial instruments can be found in the third survey of the status of cooperatives (KIHSA, 2018). Looking at the 3,718 cooperatives responding to the survey, the most preferred financial mechanism was expansion of members' contributions (42.3%), followed by borrowings from the board of directors (39.6%) and government subsidies (36.7%). Expanding members' contributions rather than borrowings was preferred, and in the case of borrowing, insider borrowing (67%) from board members or members was preferred rather than external borrowing (21.1%).

By type, business cooperatives had higher expectations of government subsidies (38.4%) than other types of cooperatives. Consumer

cooperatives were closest to the ideal of financial self-sufficiency in that they had a particularly high preference for members' contributions and borrowings (90.3%). For workers' cooperatives, the preference for borrowing from the board of directors (41.%) was high, and the willingness to borrow from banks and financial cooperatives (38.7%) was also high. Multi-stakeholder cooperatives had a high preference for government subsidies (37.2%), which appears to be due to the provision of subsidies at the local government level for the community recovery activities of these organisations. In the case of social cooperatives, the preference for donations (28.2%) was significantly higher, reflecting the characteristic of not expecting market revenue because these organisations pursue social values rather than economic ones.

(Unit: organisation, million)

► **TAB. 13 Willingness to use financial mechanisms by cooperatives**

Cooperatives	Number of cases	Directors borrowing	Members borrowing	Expansion of contribution	Government subsidy	Donation	Financial institution	Financial co-op
Total	3,718	39.6	27.4	42.3	36.7	11.1	15.4	5.7
Business co-op	2,382	41.4	28.2	42.3	38.4	7.2	16.7	5.4
Consumer co-op	88	26.3	34.9	55.4	22.1	12.5	11.4	-
Worker co-op	137	41.6	26.0	35.5	28.9	15.2	24.7	14.0
Multi-stakeholder co-op	634	39.2	23.2	45.9	37.2	12.4	13.7	4.3
Social co-op	442	32.5	26.9	38.0	32.2	28.2	9.9	7.4
Federations of for-profit co-ops	31	30.6	41.0	24.3	48.1	14.4	6.4	10.0
Federations of social co-ops	3	100.0	100	-	-	-	-	-

Source: KIHSA (2018)

### 2.3. Two specific financial mechanisms

It can be confirmed that SSE organisations in the Republic of Korea are actively using various financial mechanisms. These mechanisms have grown rapidly over the past decade or so, based on the active efforts and cooperation of the government, SSE organisations, social finance institutions, business communities and civil society. Let us take a closer look at the two most impressive financial mechanisms and examine the role they played in the regional development and scaling up of the SSE.

#### 2.3.1. The Social Investment Fund financial mechanism by the Seoul Metropolitan Government

A prime example of large-scale funds raised for the SSE in the Republic of Korea is the SIF, established and operated by the SMG and began to take shape in 2013 after the enactment of the ordinance on the establishment and management of the SIF in Seoul. As of the end of 2020, the fund has secured 82.2 billion won from the city's budget and has provided 146 billion won to 857 SSE organisations over the past eight years. During this period, 1,851 jobs were created, and 381 social houses were constructed, which were presented as the most representative achievements (Social Economy Officer, 2018).

However, the contribution and impact of the SIF shone even more in areas that are not readily visible. First, the fund has greatly contributed to the growth of the SSE ecosystem by supplying the largest amount of funds with the lowest interest amongst financial institutions targeted at SSE organisations. The fund provided twice as much money as private SFIs and the largest total amount of public fund loans; for example, in 2015, it provided a loan of 8.4 billion won of the total public funding loan of 15.7 billion. The fund's lending rate was 2%, well below the average lending rate of 3.25% for SSE organisations. Second, the fund provided growth funds to SSE organisations with a relatively large lending limit. Third, the provision of catalyst capital required for the vitalisation of retail SFIs and self-sufficiency financing is also an important contribution of the fund. It increased the lending capacity of these various financial institutions by providing them with interest-free funds. Fourth, the fund contributed significantly to supporting the SMG's SSE-related core policies by providing funds from the early stage to projects which have received special attention from the SMG, such as construction of social housing, solar power stations and the spread of a sharing economy (Job Labor Policy Officer, 2017). In 2021, the fund plans to expand the scope of special support for social and economic companies affected by COVID-19, as well as the scope of support for emergency micro-loans for vulnerable workers (Social Economy Officer, 2021).

(Unit: million won)

► TAB. 14 Loan support performance of the Social Investment Fund by year

Classification		2014	2016	2018	2020
Loan amounts	Sum	9,348	21,331	18,171	27,512
	SMG fund	7,488	20,664	13,066	22,020
	Private fund	1,860	667	5,105	5,492
Number of companies supported		44	65	137	174

Source: Social Economy Officer (2021)

### 2.3.2. Innovative financing mechanisms by the iCOOP cooperative union

Self-sufficiency financing is exceptionally strong in Korea's major cooperative, the iCOOP consumer cooperative, which is a leading organisation that succeeded in scaling up and growing. According to data on the consumption sector in 2017, the proportion of equity capital (86.3 billion won) in the co-op is high compared to the total fixed assets (168 billion won), and debt is mostly borrowed by co-op members (41.7 billion won). This development of self-sufficiency financing in iCOOP has relied heavily on innovative financial mechanisms, which are difficult to find in the cooperative sector and in the entire SSE sector. iCOOP created an innovative financial mechanism under the leadership of the union, and thanks to the active participation of local member co-ops, it was able to maximise the use of these mechanisms. This success in finance enabled iCOOP to greatly expand its business and create new development models within a relatively short time.

The innovative financial mechanisms of iCOOP are largely based on monthly membership dues schemes, members' project financing loan schemes, member share systems, members' advanced payment schemes and various funding systems. First, members of iCOOP are required to pay monthly dues of about 10,000 won in addition to the basic share they pay when they join. They believe that it is desirable for cooperatives to supply goods to their members at the lowest possible price without profit and that it is reasonable for them to cover the expenses incurred to operate the co-op with the members' dues. About half of the members' dues are used for expenses for the operation of the union headquarters, the price stabilisation fund and the store cooperation fund, while the rest are used for expenses related to the self-governing activities of the local co-op members. It seems that the monthly membership dues scheme has not only helped management but also promoted the activities of local co-op members.

(Unit: Billion KRW, person, %)

Finance				Responsible investment	Members' advanced payment system	Funds collected			
Consumption sector	Production sector	Responsible investment	Members' advanced payment system			Funds collected			
Fixed asset	168	Fixed asset	41.9	Participants	6,012	Participants	74,018	Price Stabilisation Fund	3.8
Member loan	41.7	Member loan	23.3	Participation rate	2.7	Participation rate	32.4	Production Stabilisation Fund	1.1
Capital	86.3	Capital	21.6	accumulated amount	7.3	Total amount	117.1	Store Cooperation Fund	0.8

Source: iCOOP (2011–2018)

Second, the members' project financing loan scheme is a unique financing arrangement of iCOOP, in which facility funds are borrowed from their members for a particular purpose. iCOOP adopted a way to expand its business by borrowing money from its members through the creation of a kind of project financing loan fund rather than borrowing money from outside banks. Building a logistics centre, setting up stores at the national level and creating large clusters were all possible through the member loan scheme. Members were encouraged to participate given the interest rates provided above banks' interest rates, and the repayment of the principal was achieved through the successful expansion of the business.

Third, iCOOP uses various forms of member share investment schemes, such as business investment and responsible investment. For example, a responsibility investment scheme was established in 2014 to encourage those who want to become core members to invest 1 million won per person, which is aimed at strengthening the co-ownership and accountability of members. The responsible investment scheme is used for establishing clusters and multicultural centres along with the member loan scheme. The responsible investment scheme differs from the member loan scheme in that it is not debt but equity capital for iCOOP.

Fourth, there is also a members' advanced payment system. This system allows members to deposit certain amounts in cash before purchasing goods and then use the deposit when purchasing goods so that farmers can secure the necessary funds for production in advance. iCOOP members help farmers concentrate on production without private debt by paying advance payments to them at the time of the contract. This scheme symbolises a personal, long-term and mutually

beneficial contract relationship between urban consumers and rural farmers. In 2017, 32.4% of union members participated in the members' advanced payment system.

Fifth, iCOOP has also raised various funds based on monthly membership dues and is using them to achieve the goals of stabilising the prices of agricultural products, enhancing the welfare of activists and expanding stores. The most impressive of these is the price stabilisation fund, whose aim is to protect consumers and producers from drastic changes in the prices of agricultural products. The fund lowers prices when the prices of farm products soar, relieves consumers of burden and protects farmers by supplementing producers' income when it falls.

## 2.4. Relevant experiences with the selected mechanism

### 2.4.1. The Seoul Metropolitan Government's Social Investment Fund

The SMG's SIF has contributed significantly to the revitalisation of the city's social housing business, aimed at housing welfare and community revitalisation. With the help of the SIF, various projects focused on community and sharing can be carried out, including customised rental housing for the elderly living alone, cooperatives for solving youth housing problems, residential projects for artists' groups, remodelling and sharing of empty and old houses.

The most important contribution of the SIF, however, is that it promotes the development of the social finance ecosystem as a wholesale social financial institution, by providing catalyst capital and various types of networks to retail social financial institutions. In this regard, the collaborative financial projects with BPLUS, a



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crowdfunding-specific SFI, have been impressive. Let us take a look at the case of Han-Maeum (the One Mind) F&C, a social enterprise specialising in funeral services. Homeless people with independent will and women cut off from their careers were selected and recruited as funeral service instructors through systematic training, and funeral supplies were purchased from six social enterprises operated to support these vulnerable groups. One Mind F&C also provides funeral support for the elderly living alone and homeless people. The enterprise asked BPLUS for funds to provide operating expenses and storage space for funeral supplies, and BPLUS raised 50 million won from civic investors through its crowdfunding platform. The annual

return was 9%, and the repayment period was 12 months. In the process, the SIF provided an additional loan of 125 million won, 2.5 times the BPLUS loan, to the social enterprise. By virtue of the catalytic capital from the SIF, BPLUS can guarantee a higher rate of return (9%) than the bank deposit rate for citizen investors and can provide a large amount of money to One Mind F&C at a much lower rate than the return promised to the investor (BPLUS, 2018a). Collaboration makes the power of finance stronger. In social finance, which lacks funds and manpower compared with traditional financial institutions, collaboration amongst social financial institutions is particularly important.

#### **2.4.2. iCOOP's cooperative project financing for the creation of a large industrial and cultural complex**

The iCOOP cooperative group has created and operated a large-scale production and cultural complex or cluster called the Natural Dream Park in Gurye-gun and Goesan-gun, which are representative rural areas of Korea. These clusters have received much attention because they are an organic combination of the agriculture and food industries and a private-led sustainable rural development model. Particularly noteworthy with regard to these clusters is that in the course of raising funds, iCOOP has formed an innovative cooperative network with members, farmers, producers, CEOs of the factories that joined this complex and local governments. Instead of relying heavily on the government, traditional financial institutions and external investors and through a member-based innovative project financing mechanism, iCOOP created a unique regional development model that is rarely seen in Korean society, in which government-led economic development models dominate.

The co-op raised the funds needed to establish the cluster through a special purpose financing mechanism or a member-based project financing mechanism. This project financing mechanism consists largely of the member loan scheme, the member share investment scheme, member convertible bonds and partners' equity investments. The Gurye and Goesan clusters were completed in 2014 and 2019, respectively, but their establishment had already begun in 2007. The most important consideration in the early stages was to buy land, which was funded mainly by cluster funds and the cluster investment scheme. In the case of cluster funds or members' project financing loan, the minimum amount of 1 million won or more was loaned at a rate substantially

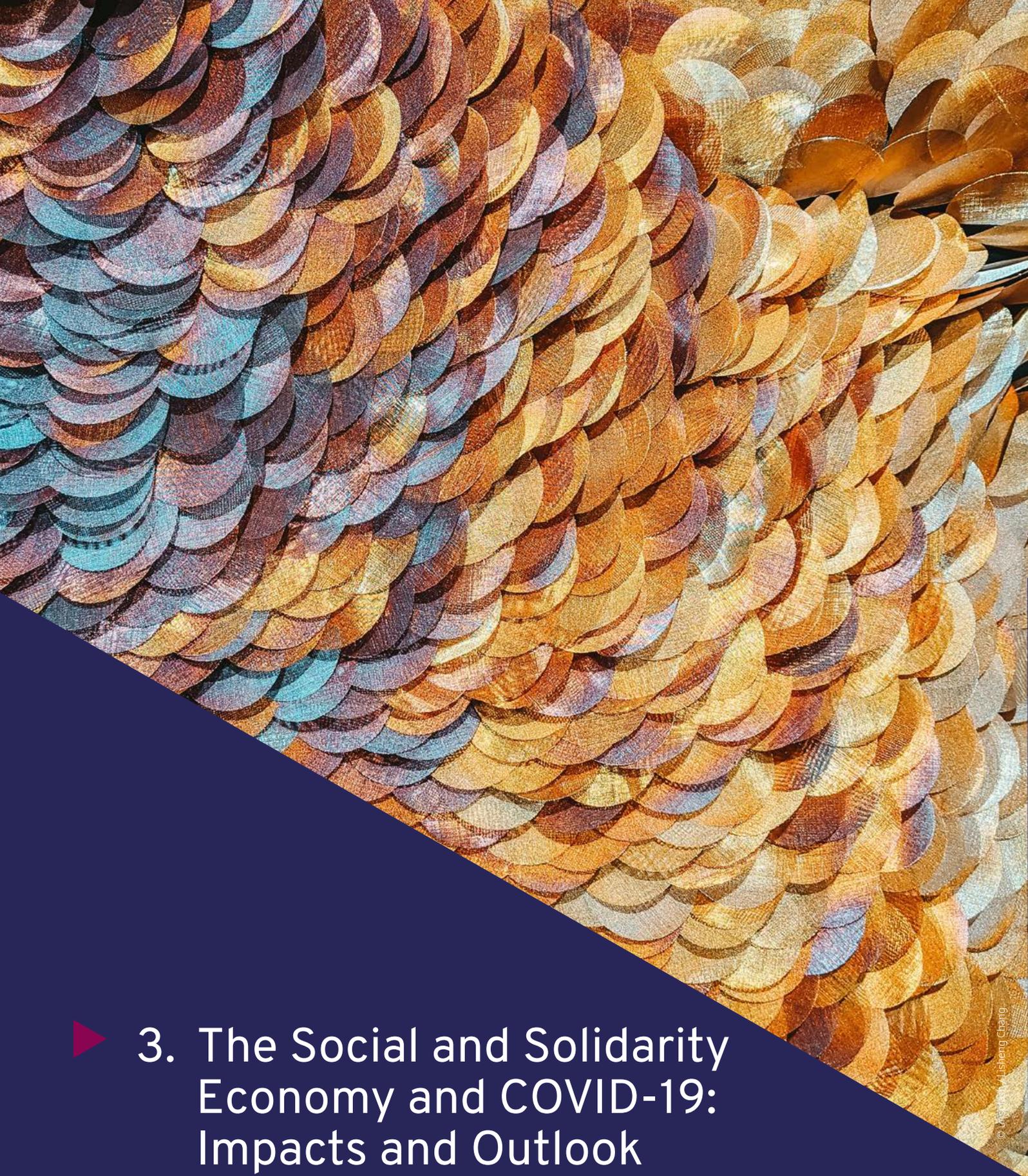
above the bank deposit rate, and the principal and interest were repaid after two years. The goal of raising 30 billion won of cluster funds from more than 3,000 members was achieved earlier than expected. In addition, one of the members' special purpose share investments was also utilised to create the cluster, with a total of 11.5 billion won from 2008 to 2010 (iCOOP, 2011).

With the concern that too much reliance on member borrowings would increase the burden of interest expense, the member responsible investment scheme, in which more than 1 million won was invested from core members, was introduced in 2014; 3 billion won of responsible investment was raised in that year alone. At that time, the members who participated in responsible investment were given the opportunity to invest in convertible bonds, a financial instrument that guarantees an annual return of around 5% for investors who have invested more than 1 million won over two years, or allows them to buy stocks of a subsidiary of the iCOOP cooperative group (iCOOP, 2015). The sale of these mezzanine financial instruments allowed the iCOOP to raise an additional 17 billion won in 2014 alone.

The establishment of the Natural Dream Park was successfully completed, as it involved not only consumer members but also farmers and producers during the financing process. For factories that produce sweets, bread, meat products and so on, they were allowed to operate in the form of stock companies in order to facilitate facility financing for plant construction and machinery purchase. During this time, farmer producers or the bosses of the companies in the complex were allowed to participate as shareholders of the production plant, whereas half of the shares were held by the responsible members or the iCOOP subsidiary,

thereby harmonising the cooperative's own purpose and efficient operations. The government also participated as an important stakeholder in the process of establishing the complex. The local government did not directly provide funds for the construction of the complex, but it developed infrastructure facilities, such as wastewater treatment plants and driveways. Local governments played a role in ensuring that land was sold at the lowest possible price.

The series of business developments shown by the iCOOP cooperative group in the past decade in Gurye and Goesan is an excellent example of the success that can be achieved by the power of ordinary people even without financial support from external entities, such as governments or large corporations; they only need to effectively use innovative financial mechanisms and actively encourage financial participation from various stakeholders. This experience will be an important reference in the process of developing the Korean social finance ecosystem in the future.



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▶ 3. The Social and Solidarity Economy and COVID-19: Impacts and Outlook



### **3.1. Impact of the COVID-19 crisis on social and solidarity economy organisations**

#### **3.1.1. Aspects and extent of damage**

The impact of COVID-19 on SSE organisations can be largely identified through two channels. One is data on the extent of damage during a relatively early stage after the outbreak of COVID-19, collected by the SSE COVID-19 Response Headquarters formed by the KSEN. The other is the results of a survey on business sentiment conducted by the KSEPA.

First, the investigation by the SSE COVID-19 Response Headquarters can be summarised as follows. Sales fell significantly because of COVID-19, which increased various difficulties, with 80% of the respondents saying that labour costs were high, followed by rent cost (51%). Matters requiring urgent attention from policy authorities were public sector market support (35%), emergency small funds (31%) and labour cost support (25%). In terms of finance, 82% of the respondents said they needed emergency funds. The management burden caused by COVID-19 has increased significantly, but many of the respondents said that they would share the burden of sharing jobs or protecting jobs by adjusting their work or employment patterns (Joo, 2020).

The survey of the KSEPA was conducted over a longer period for more SSE organisations, and the results can be summarised as follows. According to Business Survey Index (BSI) results, the overall economic conditions of SSE organisations continued to deteriorate, and they had a greater BSI variation compared with traditional enterprises of a similar size. This means that SSE organisations are relatively vulnerable to sudden crisis situations, but they may recover faster if appropriate support measures are provided (KSEPA, 2020).

#### **3.1.2. The case of Daegu**

In terms of the number of infections or deaths, Korea has fewer compared with other countries. In February and March 2020, there was a large number of confirmed cases, but since then, disease control and prevention authorities have been able to minimise human casualties relatively early, as they have responded effectively. However, considering that 7,984 of the 9,786 confirmed cases as of March 31 2020 were in Daegu and North Gyeongsang Province and that the population of these areas is less than 10% of the total population of the Republic of Korea, it is clear that such areas suffered much more than other regions did.

Under these circumstances, the Daegu Social Economy Center worked with the SSE department under Daegu Metropolitan City and regional councils to investigate the damage to SSE organisations in early March 2020. According to the survey, the average decline in sales of all SSE organisations in February was 63.5%, and they took measures such as closing or adjusting employment (Kim, 2020).

### **3.2. Role of the social and solidarity economy and social finance in post-COVID-19 recovery**

#### **3.2.1. Self-sufficiency efforts to support social and solidarity economy organisations in crisis**

The main feature of the Korean SSE sector in relation to the COVID-19 crisis is a systematic and collective response. The KSEN, a nationwide network organisation of various kinds of SSE organisations, formed the SSE Covid Response Headquarters to conduct surveys on damages, policy proposal activities, fundraising activities and social consumption promotion activities. Through this, various projects have also been



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carried out, including the Zero Employment Adjustment relay declaration, fundraising and funding activities to help fellow organisations in need, and collaboration with consumer cooperatives to promote social consumption (Joo, 2020).

### **3.2.2. Social finance for social and solidarity economy organisations**

The rapid and aggressive response to the demand for emergency funds was notable. The SVS, a newly established wholesale financial intermediary, launched a joint crisis response action with SSE organisations, civic groups, companies and public institutions and created the Disaster Solidarity Fund to provide emergency funds to 27 SSE organisations affected by COVID-19 (SVS, 2021).

The SIF, operated by the SMG, created a COVID-19 special loan and provided a total of 15 billion won to SSE organisations that did not receive support because they were not included in the general financial support sector. Long-term low-interest loans of up to 300 million won were provided depending on the extent of the damage, subject to a 0.5%–1.5% interest rate for repayment within four years, with a two-year grace period. Self-sufficiency funds, such as the Korea Social Innovation Finance and the KCCSE Solidarity Fund, were also provided to actively respond to the needs of members through collaboration with the SVS and the SIF (Journal of the iCOOP Cooperative Institute, 2020; Roh, 2020).

### **3.2.3. Attempts to help local communities in crisis**

SSE organisations in the Republic of Korea have also tried to help communities in serious need because of COVID-19. The experience of Daegu, where COVID-19 inflicted the most damage, is of particular interest. Daegu's case began at the level of individual SSE organisations, but over time, intermediate support and representative organisations systematically collaborated and evolved to become more sophisticated. This process provided an opportunity for the SSE to take root in the region and confirmed the possibility of further cooperation amongst various organisations belonging to the SSE (Kim, 2020).

The activities of grassroots SSE organisations played an important role. The Dowl Cooperative, which has operated an architectural and woodworking academy for the housing poor and has carried out projects to improve the residential environment, provided lunch boxes to homeless people when free lunch centres for them were closed because of concerns over infection and transmission. When such good deeds became known, homeless support centres

and social cooperatives also joined; the village company Rainmaker recorded such activities in a video. Founded by women whose careers were interrupted, Agasewing Cooperative produced reusable face masks and supplied them to migrant workers' centres, basic living beneficiaries, the disabled and the elderly. The Sweet Table Cooperative, which operates a local side dish shop, delivered lunch boxes to the disabled in areas that were quarantined because of COVID-19, and the Neighborhood Bookstore Cooperative sent drinks and hygiene products to medical staff. Despite a sharp drop in sales, the Cleaning Village social enterprise provided disinfection and cleaning services to welfare centres, day care centres and youth cafes in vulnerable areas. Empathy Seeds, a social enterprise specialising in travel, tourism and lodging, provided free guest houses to medical staff who came from all over the country to treat confirmed COVID-19 patients. When the news came out, various sponsors throughout the country, such as manufacturers of health food, red ginseng, quarantine supplies and stretching equipment, joined the collective efforts. The culture and art industry, which has also been hit hard by the pandemic, organised various performances to comfort Daegu citizens.



# 4. Conclusions and Policy Recommendations



## 4.1. Gaps in access to finance and opportunities for future development

### 4.1.1. Areas in which the role of the social and solidarity economy is most urgent and the basic strategy for its success

The SSE has been addressing social problems that have not been met by governments or commercial enterprises with a high value orientation, organisational innovation and a mix of diverse resources. But there is still a long way to go. It is too early to say that SSE organisations have made citizens fully aware of the effectiveness of their activities. There is still the task of proving to Korean citizens that SSE organisations are more effectively implementing social values and translating them into economic value than ordinary for-profit companies are. It is also necessary to promote a culture of solidarity and collaboration amongst SSE organisations. Considering these points comprehensively, at this stage, the most urgent tasks of the SSE are to focus on the sustained fulfilment of basic needs and to help alleviate people's living cost burden in terms of housing, food, transportation, child care, feeding, nursing, and so on. Recently, the urgent agenda put forward by the SSEC included the expansion of cheap and community-oriented social housing, expansion of reliable public child care services, implementation of residential-based integrated care services for the elderly, expansion of jobs for unemployed youth and groups excluded from the labour market, provision of healthy food and enhancement of preventive medical services (Lee, 2018). In these areas, collaboration, securing regional common assets and scaling up are crucial for SSE organisations to provide high-quality services to users and good jobs for employees.

First, regarding collaboration, there are cases in which the SSE organisations of other industries

in the same region have formed a joint sales unit to develop a composite service product and share a consumer pool. In 2016, the SMG and Gwangjin-gu Office carried out social and economic special projects designed to help Dawnuri, a social cooperative, and provide care, cleaning, nutrition, laundromat and emotional healing products in a package in collaboration with SSE organisations in the same region. These combined services have been praised by citizens. This suggests that changing the public financial support mode in such a way as to promote cooperation between SSE organisations in areas of high social demand will not only increase the sharing of resources and joint production for collaboration but also enable cheaper and higher-quality service delivery (Lee, 2018). For this collaboration to remain strong, commitment and sharing of purposes, values and ethics is important, and social financial institutions need to keep this in mind.

Second, SSE organisations also benefit greatly from sharing local assets. This means the transfer or ownership of operating and management rights of public facilities by the local community; SSE organisations in the community can benefit from the cost savings by using the transferred buildings for free or for a low rent cost, as well as benefit from aggregation economies by various industries in the same space. Local asset sharing is a major leverage that SSE organisations can use to move away from government subsidies and carry out urban renewal in a more sustainable and ecologically friendly manner; this can be done by expanding the use of local asset sharing or commons in various forms. Suppose, for example, that the Department of Education in a region rents out closed elementary school sites to SSE organisations for free for a period of 100 years. Several local organisations will participate in constructing the buildings, half

of which will be used as commercial spaces to cover construction costs, and the other half will be used by relevant SSE organisations to meet the needs of local residents. If SSE organisations can bring citizens together as users and co-producers, it will contribute not only to the economic efficiency of the organisation but also to the restoration of the community in the entire region.

Third, it is important to increase the economic efficiency of SSE organisations in order to effectively address the difficulties of citizens and win their support. The key to this is scaling up. The iCOOP cooperative group is able to maintain its competitive edge in the highly competitive food-related consumer goods market because it has succeeded in scaling up based on clusters. For the future development of the SSE, it is necessary to actively motivate SSE organisations and small business owners to expand their business scale, with a focus on industries that are directly related to civil life and have great room for economies of scale or scope to be exercised. In this regard, it is desirable to develop a new business model, such as social franchising, aimed at expanding the size of the business and focusing on care, transportation, construction and housing, which are the sectors suitable for cooperatives; the larger the size, the lower the cost per unit. It is important to help existing organisations with sufficient industry expertise become key players and use innovative financial mechanisms, such as those applied by iCOOP.

Fourth, through the COVID-19 crisis, the Korean SSE has shown its potential to help solve community problems in everyday life, away from their traditional image as an efficient means of job creation and welfare. Daegu, in particular, became a base for creating vitality and human pride through solidarity. The COVID-19 crisis asked all of us the essential question of what the

SSE is. In an era of disasters, people in the SSE sector should continue to ask questions about how they can perform well to meet the needs of citizens while continuing to find businesses and alternatives through innovative and collaborative experiments in the region. The pre-emptive and systematic financial support provided by wholesale financial institutions, such as social investment funds and social value solidarity funds, can have important implications in the post-COVID-19 era when the crisis may become widespread.

#### **4.1.2. Importance of social finance and its limitations in the current situation**

Large-scale funding is crucial for collaboration, local asset sharing and scale-up. It is desirable that such large funds be created within the social finance ecosystem rather than within traditional financial institutions. However, Korean social finance is still underdeveloped, and the provision of growth capital for expansion is the weakest part of the current social finance ecosystem. The lack of an institutional foundation for ordinary people to participate as investors and a low sense of the usefulness of the social solidarity economy to citizens are also problems that need to be overcome.

## **4.2. Policy recommendations**

### **4.2.1. General recommendations**

First, policy support focusing on strengthening and harmonising social and economic sustainability is needed. Regarding the attainment of social goals, there is a need for methods such as citizen participation, cooperation between SSE organisations and compensation to create social value. It is also necessary to strengthen the hybrid nature of SSE organisations, to support the cooperation

and linkage of SSE organisations in the same region and similar industries and to encourage the participation of volunteers in addition to paid executives and employees. Particularly, the participation of seniors and cooperation with unions is important. In terms of economic sustainability, it is necessary to develop policy in a direction that can actually increase business and job capacity, and active attention by policy authorities on scale-up and the spread of success models is required.

Second, it is necessary to establish a policy support system that enables the unique characteristics of the SSE to surface. There is a need to focus on creating an ecosystem rather than emphasising individual support. At this time, the core of the SSE ecosystem is to create an environment in which various players and stakeholders can share experiences and learn and work together in a common activity space. Government subsidies need to be positioned both as a social reward of social value creation activities and as a catalyst attracting more external resources. This requires the development and application of evaluation and measurement tools that can objectively assess and measure the social values created by SSE organisations. In addition to market standards of efficiency and competitiveness, social accounting standards, such as the achievement of social purpose, should be fully reflected in the evaluation and measurement of the SSE.

Third, there is a need for policy support differentiated by type of SSE organisation. In the case of SSE organisations with high public benefits and high social value but a low paying ability of its beneficiaries, it is desirable for the government to compensate for the public benefits or social value on behalf of the beneficiaries. On the other hand, in the case of SSE organisations that can generate high economic value through the voluntary

cooperation of members and competition in the market, it is desirable to provide an institutional basis for fair market competition rather than direct support.

Fourth, it is necessary to socially recognise the importance of SSE organisations by giving them an institutional and official status through the establishment of the Framework Act on SSE. At the same time, providing a basis for giving priority to SSE organisations in the use of public properties or local shared assets and public purchasing is important.

#### **4.2.2. Recommendations for social finance**

For social finance to be activated and for fundraising to be sustainable, funds must be able to flow evenly from various areas, including public investors, philanthropists, traditional investors and citizen investors; the funds of numerous civic investors must be the basis. To do this, the following measures can be considered.

First, leaders and activists in the SSE area need to work with civil society in actively promoting the establishment of social banks. If such an attempt is made in earnest, policymakers need to respond with improvements in the legal system, such as easing the requirements for establishing banks. In addition, the joint funds of SSE organisations and labour unions are expected to have a notable impact. Not only does this mean cooperation between labour and the SSE, but it can also serve as a shortcut to drastically expanding civic-based funds in the near future with the help of organised workers. Second, there is a need to revise relevant laws and regulations to facilitate the financing of cooperatives and to improve the institutional environment so that the loans and investments to SSE organisations of financial cooperatives increase. Third, revising tax laws to increase the funding of charitable investors

and citizen investors to SSE organisations is also necessary. If a private non-profit foundation profits by making a loan to SSE organisations or social finance Institutions, providing tax exemption benefits is appropriate, as in the case of donation businesses, because their loan project has a high level of public interest. Under the current income tax law, loans or investments in ventures and startups are

provided with income tax deductions; similarly, providing income tax credits for individuals' loans or investments to SSE organisations and social finance institutions is necessary. Finally, the introduction of the Korean version of the Community Reinvestment Act would encourage traditional financial institutions, including banks, to increase donations, loans and investments to SSE organisations and SFIs.

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