

Social Economy in the National Context: Origins and Development in the Republic of Korea



PRACTICES and relations conceptualized as social and solidarity economy (SSE) existed long before the modern capitalist market system emerged in the Republic of Korea. Since the colonial period, when an exploitative market system was widespread, various forms of SSE organizations and enterprises, albeit weak and small in terms of impact and scale, have continuously developed.

The concept of social economy (SE), as the SSE concept is known in Korean, started to be used in the 1990s to refer to a variety of organizations and activities addressing social issues such as unemployment and poverty. Various stakeholders, particularly both central and local governments and civil society actors, have contributed to the development of SE as a concept and as a practice by establishing supporting institutions and organizations. In particular, a series of laws which give a special legal status to organizations and enterprises prioritizing social and often environmental objectives over profits has played a significant role in growing the SE sector. There have also been new forms of enterprises which prioritize

social values and goals but which do not specifically aim to meet the criteria needed to gain one of the specific types of legal recognition associated with SE. Assuming different legal forms, ranging from commercial corporations to cooperatives, SE organizations and enterprises have emerged in many industrial sectors with support from government schemes for new economic entities creating jobs. They have also started to form networks. SE in the Republic of Korea is understood broadly to include all these organizations, their relations and activities.

This chapter explains the origins, development and the current state of SE in the Republic of Korea. The next section describes the historical origins and development of SE in the Republic of Korea from the colonial period to the present. The chapter then presents the current structure of SE in the national context, describing the principal types of SE organizations and enterprises (SEOs), with a focus on their key characteristics, main challenges and opportunities, which in part also characterize SE in Seoul.

Historical origins of social economy in the Republic of Korea

As is the case for all countries, the Republic of Korea has a long tradition of informal SE organizations. Mutual aid organizations among villagers in the predominantly agricultural societies of the past, such as *dure* and *gye*, are excellent examples. As the institutions of the state and market evolved, various forms of economic organizations and enterprises, which belong to neither the state nor the market, have developed.

The developmental trajectory of SE in the Republic of Korea is a combination of a bottom-up movement by civil society and a top-down approach by the state. It is different from the typical development pattern of SE in several European countries where civil society actors initiated or developed SEOEs (Defourny and Develtere 1999, Salamon and Anheier 1998, Birchall 1997).

Two major factors, in particular, have contributed to shaping the state-driven trajectory of the social economy in the Republic of Korea: centralized colonial rule by Japan between 1910 and 1945; and the subsequent authoritarian governments with centralized power and control over the economy, polity and society. The top-down and strong central planning for economic growth by authoritarian governments between 1962 and 1986 played a significant role in shaping the state-driven trajectory. Except for the period between 1945 and 1962 which was fraught with political and economic instabilities, including the Korean War, the Republic of Korea was dominated by the strong central governments of authoritarian regimes for almost eight decades. A bottom-up approach to organizing SEOEs as a counter-movement to political and social oppression was, however, also present during the periods of Japanese colonialism and authoritarian regimes.

The transition from authoritarianism to democracy in the late 1980s and the Asian financial crisis in the late 1990s provided a new structural context for the growth of the SE sector in the Republic of Korea. A variety of government institutions, particularly specific laws to grant legal status to SEOEs, as well as strong civil society organizations, played a significant role in the rapid growth of SE during this period.

Social economy during the colonial period

Two early forms of SE in the Korean capitalist market system were finance cooperatives, called *Geum-yung Johap*, the first of which was established in 1907, and agricultural cooperatives called *Nong-hoe*, first established in 1926.¹ These, and other cooperatives in a variety of industrial sectors, were established by the Japanese colonial authority in a top-down manner. Although they had the organizational structure of cooperatives and were indeed called cooperatives, the Japanese colonial authority de facto controlled them and utilized them as a vehicle for exploitative colonial policies (Jang, 2000). For instance, *Nong-hoe* was an extended arm of administrative units in rural villages used to implement forced production and export specific agricultural produce, while *Geum-yung Johap* mobilized financial resources in the form of savings which were used for the war economy.

In the first half of the colonial period, however, cooperatives that were organized by grassroots voluntarism also emerged. Led by intellectuals, religious and community leaders, and labour movement activists, many of these cooperatives were associated with the resistance movement against Japanese colonialism. The sectors in which these cooperatives operated were diverse. They included agriculture, fishery, and the purchase and sale of goods and services. Leaders of these cooperative movements aimed not only to increase members' benefits; they had a political mission as well, such as taking economic power back from Japanese businesses.

The Japanese colonial authority oppressed this grassroots cooperative movement, becoming particularly severe from the early 1930s when Japan entered a war with China (Kim et al. 2012, Jang 2013). To tighten security on the Korean peninsula, the authorities harshly oppressed and dissolved all the voluntarily organized cooperatives, including farmer cooperatives.

While suppressing the grassroots cooperatives movement, the Japanese colonial authority also launched a top-down Rural Development Movement (Yeom 2010). One of the main components of this movement was to organize people in all villages into women's clubs, youth clubs and rural development committees, and to establish plans to store grains, improve cash flow and reduce debts. The movement also emphasized the principles of self-help and

mutual support. However, these principles were propagated by the ideology that poverty was caused by people's laziness rather than structural problems. The authorities used the principles of self-help and mutual support to entrench the existing unjust structures rather than to contribute to their transformation (Kim 2009b).

The emergence of cooperatives after independence

After independence, many cooperatives were again established from the bottom-up but were significantly divided along political lines, resulting in left-leaning and right-leaning cooperatives (Lee 2013). For its part, the newly established government of the Republic of Korea adopted a top-down state-led strategy for cooperatives. In response to this state-led strategy, a grassroots voluntary movement to organize cooperatives emerged, albeit small in scale and power.

Political contestation over the nature and forms of agricultural cooperatives was particularly fierce in the predominantly agricultural economy of the newly independent Republic of Korea, intensified by the instability of the rural economy and society caused by various factors. These included: land-to-the-tiller reform, which generated many small land-owning farmers with low productivity; inflow of development aid from the United States, in the form of grain, which made prices unstable and lower than production costs in the Republic of Korea itself; and high interest rates, which put agricultural producers at a particular disadvantage within the import-substitution oriented policy regime (Kim 2014b, Yi et al. 2014, Yi 2014, Kwon and Yi 2010). The Agricultural Cooperatives Act of 1957, which reflected the government's intention to control the farmer cooperatives for political and economic purposes, provided the basis on which farmers in most villages established cooperatives (Kim 2014b, Kim 2009b).

However, at the village level in rural areas, a small number of small-scale grassroots voluntary cooperatives co-existed with the cooperatives established under the Agricultural Cooperatives Act. For instance, village-level cooperatives to buy and manage agricultural equipment which was too expensive for an individual household were widespread. Cooperatives organized for purchasing and managing grain milling machines, and cooperatives of grain milling stations, were typical examples of these informal or voluntary cooperatives outside the Act (Kim 2009b, Lee 2011).

Social economy under the authoritarian regimes

Two authoritarian governments between 1961 and 1988 tightened their control over cooperatives and even actively employed various types of cooperatives as a tool to mobilize resources to develop the economy. President Park's authoritarian government (1961-1979), with strong central economic planning, sought to control virtually all economic organizations and enterprises, both big and small (Amsden 2014). The Park government used legislation and top-down policies to organize and control cooperatives in its early phase. They include: Small and Medium Enterprise Cooperatives Act (1961); Forestry Act (1961) which included a clause on forestry cooperatives (which became the Forestry Cooperatives Act [1980]); Fisheries Cooperatives Act (1962); Tobacco Production Cooperatives Act (1963); and Credit Unions Act (1972). The laws stipulated that each sectoral cooperative should be de facto administered and monitored by the respective government ministry for its sector, effectively giving the individual ministries control over the cooperatives. Based on these Acts, government could also encourage cooperatives to establish national federations. These national federations tended to prioritize meeting the needs of the government in the way they controlled the production of goods and services, rather than serving the interests of members (Jang 2013, Jang and Park 2013).

The emergence of credit unions as a civic movement

In the 1960s, despite tightened government control over cooperatives, the grassroots movement of cooperatives re-emerged in both rural and urban areas. Particularly notable is the active participation of the Catholic community in establishing credit unions (*Sinhyp*) and education and research institutes for cooperatives in big cities such as Seoul and Busan. The credit unions providing small loans for the poor quickly spread to both urban and rural areas due to concern about the negative impacts of widespread usury practices in the 1960s. With high interest rates, usury compounded the financial predicament of the poor, particularly farmers living from subsistence agriculture who had to borrow from money lenders to purchase fertilizer and necessities after bad harvests (Kwon and Yi 2010).

The Second Vatican Council (Vatican II) (1962-1965), which stressed social justice, and foreign aid from the World Council of Credit Unions and US

credit unions, played a significant role in the growth of these grassroots credit union movements. The Vatican influenced and mobilized Catholic churches and workers while the foreign aid provided the necessary resources (Jang 2013). The credit union movement quickly spread among people with low income and those who had difficulties in accessing the formal banking system.

Leaders of credit unions actively lobbied the government from the early 1960s. Considering the role of credit unions in the economic and social development of the Republic of Korea, the US Agency for International Development (USAID) also strongly supported the legalization of credit unions by providing technical assistance. Recognizing credit unions as a means of implementation of *Saemaul Undong*, a nationwide programme of rural development initiated by the government in 1970, the government also explored ways to utilize credit unions for government projects. The Credit Unions Act passed in 1972 provided already widespread credit unions with legal recognition and protection (Kang 2010, National Credit Union Federation of Korea 2011, Jang 2013).

The legal recognition of credit unions by the Act played a positive role in the growth of the credit union sector. In 1973, 277 credit unions, with a total of 300,000 members, formed a federation, and by 1982 the number of credit unions increased to about 1,500 with around 1 million members. In 1984, the total assets of the credit unions reached USD 931 million, making credit unions in the Republic of Korea the fourth largest credit union sector in the world, after the United States, Canada and Australia (National Credit Union Federation of Korea 2011).

Government-led civic economic organizations

Another strand of organizing people via social and economic activities was the *Saemaul Undong*, particularly in rural areas in the 1970s. Initiated by the Park government, it took a similar strategy to that of the Rural Development Movement of the Japanese colonial government which mobilized labour and resources for rural development. The *Saemaul Undong* started as village modernization projects combined with the Green Revolution in rice production and government-subsidized programmes to upgrade infrastructure. It aimed to raise rural household living standards and income sufficiency via rice production (Douglass 2014). Emphasizing diligence, self-help and cooperation

as principles, the *Saemaul Undong* forced villagers to organize various self-help groups such as women's clubs and youth clubs. They became the actors who established community stores or consumer cooperatives which undertook the collective purchase of necessities for villagers. Activities by women's clubs, such as the management of village stores, consumer cooperatives and saving clubs, are particularly notable. Often in collaboration with government agencies and agricultural cooperatives, they provided a formal space where women at the grassroots level became agents of rural development (Kim 2009b). *Saemaul Geumgo*, a form of credit union but more strongly supervised by local governments, were also established as a part of *Saemaul Undong* and competed with *Sinhyup* credit unions (National Credit Union Federation of Korea 2011).²

The principles and activities of all these people's organizations were based on the ideology that the cause of poverty is laziness, which was the same as that of the Rural Development Movement during Japanese colonial rule. The cooperative activities imposed by the government aimed to reduce poverty through the forced participation of people in a state-led rural development project, rather than by transforming the structures that generate poverty and inequality.³

The spread of different forms of SEOEs during democratic transition

When the Republic of Korea transitioned from authoritarian to democratically elected government in the late 1980s and the early 1990s, the democratically elected governments also reformed various laws governing cooperatives by incorporating democratic self-management elements. The Agricultural Cooperatives Act and the Small and Medium Enterprise Cooperatives Act are good examples. However, the cooperatives which had been established under the authoritarian regimes of the past and which had grown to account for the lion's share of the country's social economy did not significantly change their organizational characteristics. *Nonghyup* (an agricultural cooperative)⁴ is a typical example. Mutuality and democracy, two important core principles of cooperatives, were particularly lacking (Jang 2012).

Producer organizations and new social policy

Nonetheless, the transition from authoritarianism to democracy opened a new space for movements to organize diverse voluntary organizations at the

grassroots level, which provided the basis for many current forms of SEOEs. An important trend in this movement was to organize poor and marginalized people in poor urban neighbourhoods where the government welfare system was not substantially addressing poverty (Kim et al. 2012). Former democratic movement activists in impoverished areas of cities started to organize residents into various forms of producer organizations to tackle unemployment and poverty issues. The leaders of this movement regarded self-sustaining collectivist values as the ideal framework to improve the economic and social conditions of vulnerable and poor people. Participants undertook manual labour, such as handicrafts, house repair and simple assembly work (No 2007), that could be easily learned by people with low levels of education and skills. These practices, albeit limited in scope and impact, provided the basis for the later development and institutionalization of the social economy sector. The participants in this movement were catalysts of the current SE movement (Bidet 2012, Kim and Hwang 2016).

The democratically elected Kim Young-sam government (1993-1998) was more receptive to the idea of institutional pluralism than the previous governments. It created a favourable environment for the growth of civil society organizations, making an effort to open communication channels with civil society to show a clear departure from the military dictatorship (Coston 1998, Jang et al. 2016). The goals of the Kim government's new social policy framework were in line with the goals of activists who had been engaging with the issues of economic democratization and enhancement of citizens' capability to improve livelihoods at the community level. Both highlighted the importance of productive and preventive welfare policies to create jobs and enhance competitiveness. (People's Planning Group for National Welfare 1995, Yi and Lee 2005).

The new direction of economic and social policies taken by the Kim Young-sam government, combined with relatively civil society-friendly characteristics, opened a window of opportunity for leaders of civil society organizations and social movements. Those who had been involved in the producer organizations in the poor areas, and policy researchers, successfully persuaded the government to launch a programme to support producer organizations as a pilot project of its new social policy.

The pilot project began with five Self-Reliance Community Support Centres in 1996. The number of Centres increased to 20 within two years. The Centres helped the recipients of social assistance by providing start-up funds and consultations on how to establish and manage producer organizations. These producer organizations had considerable autonomy even though they were funded by the government. Despite the favourable conditions they enjoyed, however, many of these producer organizations dissolved due to a number of challenges, such as insufficient capital for reinvestment, lack of managerial and technical expertise, and high market barriers to their products and services (No 2007).

Saenghyup cooperatives and social welfare corporations

In the development of SE, women's leadership was particularly prominent in the *Saenghwal* (livelihood) cooperatives or *Saenghyup* cooperatives from the late 1980s (Kim 2014a). The *Saenghyup* cooperatives movement aimed to achieve broader social and environmental goals among both consumers and producers rather than simply meeting the needs of the members through the purchase of products. It was a departure from the various forms of consumer cooperatives which focused on the supply of necessities in rural areas in the 1970s. For instance, *Saenghyup* cooperatives, often composed of both consumers and producers, established a solidarity-based exchange network of organic agricultural produce grown in an environmentally friendly way. The consumer members could visit the producers, and they shared each other's broad concerns on various aspects of their livelihoods. Democratic self-management was embedded in the operation of *Saenghyup*.

The successful experience of *Saenghyup* movements in small cities such as Anyang and Wonju influenced many cooperative movement activists in big cities in the late 1980s. The *Hansalim*⁵ cooperatives, which began in Seoul, are an excellent example. The partnership between activists from farmer organizations, which had been major forces in the democratization movement, and activists working on livelihood issues in urban areas, was the basis of the *Hansalim*. They established a solidarity-based relationship between producers and consumers which ensured the production of eco-friendly organic agricultural products and the improvement of livelihoods in both rural and urban areas.

The movement to establish *Saenghyup* cooperatives quickly expanded across the country, particularly in urban areas throughout the 1990s. The table below demonstrates the trend for one national association of *Saenghyup* cooperatives. The reduction in the total number of cooperatives is the result of small-scale *Saenghyup* cooperatives merging (National Association of Saenghyup Cooperatives 2003). These cooperatives did not only exchange agricultural products, but also engaged in other areas such as school supplies and medical services.

Activists from social movements and civil society organizations played an important role in spreading the movement, such as leaders of credit unions, community leaders, leaders of civil society organizations like the YMCA, activists in the labour movement and progressive political party leaders (Defourny and Kim 2011, Jacques and Shin-Yang 2011).

As *Saenghyup* cooperatives grew in number and market share, they needed a legal basis to protect themselves better (as they did not have the legal status of cooperatives). Increasing competition with commercial retail stores was one of the reasons they needed legal protection and a more favourable environment. Since consumer cooperatives also had

similar problems, both *Saenghyup* and consumer cooperatives started a campaign to establish a law which was finally enacted in 1998.

Another growing strand of SE-related activities was in social service provision. The number of organizations involved in providing welfare services to persons with mental and physical disabilities, and socially excluded groups, gradually increased and contributed to filling gaps in publicly provided services which had not sufficiently developed to cover the whole population (Park et al. 2004, Jang et al. 2016). These included associations, foundations and *sahoi bokji bubin* (social welfare corporations)⁶ providing care, education, vocational training and job-search services to persons with disabilities.

The Asian financial crisis and the growth of SEOEs

With the Asian financial crisis of 1997, the Republic of Korea's gross domestic product (GDP) per capita, which had increased to USD 12,197 in 1996, fell to USD 7,355 in 1998. The number of unemployed people increased to 1 million in the first quarter of 1998 and reached 1.75 million by 1999. The unemployment rate in the first quarter of 1999 was unprecedented, at 8.4 percent (Yi and Lee 2005, Ringen et al. 2011). The crisis exposed the limitations of existing welfare programmes in addressing a high rate of unemployment and increasing income polarization (Yi and Lee 2005). However, it also offered an opportunity for SE to demonstrate its resilience and problem-solving potential in a crisis context. During this time the government actively used SE as a key social policy tool to address the economic and social problems caused by the crisis.

The National Basic Livelihood Security Programme, and Self-Reliance Communities and Enterprises

The government of the Republic of Korea turned to the International Monetary Fund (IMF) for help in November of 1997. In exchange for an unprecedented USD 57 billion bailout, the IMF imposed on the Republic of Korea its standard package of neoliberal structural adjustment and market liberalization. The then-president and all the major candidates of the upcoming presidential election had to accept the conditions of the bailout, which triggered embarrassment and humiliation among citizens (Ringen et al. 2011). In the midst of

Table III.1. Members of the National Association of Saenghyup Cooperatives

	TOTAL		SEOUL AND ITS VICINITY		OTHER METROPOLISES		SMALL CITIES AND RURAL AREAS	
	●	▲	●	▲	●	▲	●	▲
1987	65	100	13	20	21	32	31	48
1989	90	100	33	37	31	34	26	29
1991	77	100	21	27	30	39	26	34
1993	77	100	25	32	25	32	27	35
1995	78	100	33	42	19	24	26	33
1997	62	100	36	58	17	27	9	15
1999	57	100	34	60	13	23	10	18

● Number of *Saenghyup* cooperatives ▲ Share (%)

Source: National Association of Saenghyup Cooperatives 2003

the crisis, opposition party leader Kim Dae-jung won the presidential election, and with his victory the country made an important step toward democratic consolidation.

The triple influence of economic crisis, political power change, and collective embarrassment and anger constituted the background for policy reforms and collective action that subsequently led to the birth of SE in the Republic of Korea.

In its response to the crisis, the Kim Dae-jung government undertook significant reform of the welfare system to improve public support for newly unemployed people and their families. At the core of this welfare reform were National Basic Livelihood Security (NBLs) programmes, implemented starting in 2000. Breaking away from the existing poor law-type of relief system both in its philosophy and practice, the NBLs promoted rights-based social assistance in which the state served as a duty bearer to guarantee a social minimum living standard. It was in part a policy response to civil society’s demand for greater accountability towards social welfare provision.

The productive welfare principle that was applied incorporated workfare measures into the NBLs to enhance people’s employability and promote their self-reliance. Establishing producer organizations and work projects which could create jobs for people who were vulnerable and poor but still capable of working became a major component of the NBLs. There were two trajectories for organizing. In one, the programme established local-level Self-Reliance Aid Centres (SRACs) which organized poor and vulnerable people into Self-Reliance Communities (SRCs) (Central Self-Sufficiency Foundation 2015). In the second, producer organizations (which were voluntarily organized) became SRCs.

Various support mechanisms for the SRACs were also established in line with the terms of the NBLs Act. In addition to payment for contracted services, the government provided preferential terms for public procurement and allocation of public projects, free lease of public assets, financial support for R&D, education and training, and financial support for the SRACs. Many civil society organizations which had been supporting the unemployed and working on poverty reduction became SRACs, and came to derive a large proportion of their budget from payments for their services via contracted NBLs

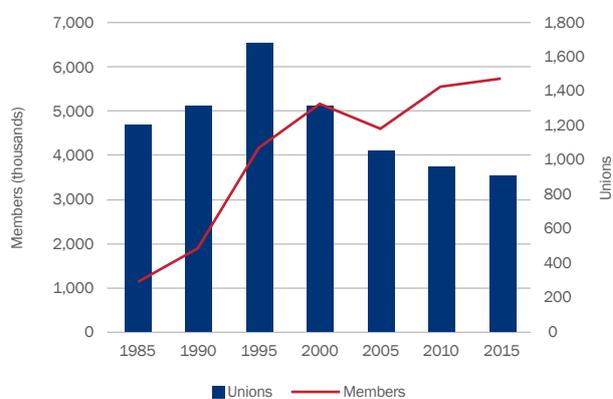
programmes (Bidet and Eum 2011). The number of SRACs increased from 90 in 2000 to 242 in 2003 covering all parts of the country (No 2007). In 2007, a central SRAC was established to coordinate and support the local SRACs.

The growing number of credit unions and Saenghyup members

Credit unions gradually grew and surpassed four million members in 1995, by which time usury practices had almost disappeared in the country. The number of credit unions peaked at 1,671 in 1996 and started to decrease from 1997 in the midst of the Asian financial crisis. Many credit unions were either dissolved or merged with other credit unions. Notable is the increased number of members even during the Asian financial crisis, which partly indicates the contribution of credit unions to addressing the financial difficulties of those affected by the crisis, particularly the poor (National Credit Union Federation of Korea 2011).

Credit unions mainly contributed to the creation of credit for micro and small enterprises by replacing physical collateral with intangible collateral, such as peer monitoring or a mutual trust mechanism to guarantee repayment. Many members of credit unions knew of the benefits of cooperation because they had participated in mutual savings and loan activities before the financial crisis. In the midst of crisis, when the value of assets as collateral plummeted, credit unions became the institution that many people could rely on rather than avoid, as they did for formal banks (National Credit Union Federation of Korea 2011).

Figure III.1. Number of credit unions and their membership



Source: National Credit Union Federation of Korea, Han and Kang 2013

From the late 1990s, many of the individual *Saenghyup* cooperatives across the country that had been hit by the economic crisis used a variety of management innovations to pick up growth again. One particularly notable innovation was to establish a unified logistics system managed by federations of individual *Saenghyups* such as the Korea Confederation of *Saenghyup* (currently iCOOP). It helped individual *Saenghyups* to significantly reduce the costs of transporting, storing and delivering goods to customers (Yeom 2008). The Consumer Cooperatives Act, established in 1999, provided the basis for more rapid growth in the membership of *Saenghyup* cooperatives (Chang and Lee 2009). This is demonstrated by the rapid growth in sales volume, revenue and members experienced by four major *Saenghyups*, as well as the federations iCOOP and *Hansalim* in the late 1990s and early 2000s, when for-profit wholesale and retailers suffered poor growth.

Table III.2. Comparison of major *Saenghyup* and for-profit wholesalers and retailers

	iCOOP (then the Korea Confederation of <i>Saenghyup</i>)			HANSALIM			FOR-PROFIT WHOLESALE AND RETAILERS
	●	▲	■	●	▲	■	●
1998	-	6	633	-0.7	5	22208	11.19
1999	194.2	7	1,229	28.4	5	26551	-0.31
2000	180.6	15	2470	22.8	5	31511	8.9
2001	150.3	26	3330	47.2	6	41031	-3.99
2002	199.8	35	7538	39.1	8	60363	6.45
2003	179.5	46	11645	30.8	10	75636	-7.03
2004	172	58	15368	41.9	12	99761	8.13
2005	122.9	62	16808	15.3	14	115851	0.18
2006	128.3	62	20100	15.6	16	132787	-

● Revenue growth rate ▲ Number of member cooperatives ■ Number of individual members

Source: Lee 2008, Hansalim 2017

However, the Act required *Saenghyups* to meet certain conditions such as restrictions on business in the financial sector, and that the initial capital required be legally recognized. While raising social awareness and providing protection for *Saenghyup* cooperatives, the Act also crowded out various forms of *Saenghyups* because of these legal conditions. As of 2007, about 43 percent of *Saenghyups* undertaking activities were not legally recognized (Chang and Lee 2009).

The concept and practice of SE emerges in the Republic of Korea

Although various forms of SE organizations had developed throughout Korean history, they were not conceptualized and practised as an alternative economy to the profit-oriented market economy until the early 2000s. Although the NBS created a space for economic activities for social purposes with a workfare element, it did not conceptualize it as SE. It was civil society that initiated a process of conceptualization of SE encompassing diverse economic activities with social and then environmental purposes.

Just after the announcement of the IMF's decision to provide a loan with strict conditionality in December 1997, Korean citizens transformed their embarrassment and anger into collective action to donate or sell their gold jewellery at a low price to the government. The idea behind this campaign, called the Gold Collection Drive, was to help repay the loan more quickly (Kim and Finch 2002). The donated gold jewellery was collected by commercial banks and civil society organizations. Within months, 227 tons (USD 3 billion-worth) of gold were collected (Becker 2015).

The government decided that proceeds from the donated gold should be used to address the problem of mass unemployment. Between 1998 and 2002, around KRW 114 billion (about USD 90 million) from the donated gold was allocated to Korea Workers' Compensation and Welfare for this purpose.

The People's Movement Committee for Overcoming Unemployment (PMCOU) was established in 1998 to manage these funds. It was comprised of representatives of religious communities, media and civil society organizations. Small community-based CSOs with similar causes and functions joined the PMCOU and formed a national network of about 130 CSOs as of 2000 (Working Together Foundation 2013). The PMCOU used the donated gold to provide benefits, social services and food to unemployed, poor and vulnerable people. Focusing on overcoming unemployment, the PMCOU partnered with the government to create Self-Reliance Centers (SRCs) across the country (Lee 2015). With the assistance of the government-run Workers' Compensation and Welfare, the PMCOU provided funds to selected business proposals for enterprises with social purposes. Public-private partnership and

the principle of democratic decision making were underlying characteristics of the PMCOU (Working Together Foundation 2013).

The emergence of SE as an alternative strategy

While the official unemployment rate declined to 4 percent in the early 2000s, it was estimated that the unemployment rate of vulnerable groups and poor people was around 14 percent (No 2006).⁷ Consensus around the need for alternative employment measures for these groups was widely shared in civil society organizations, particularly those involved in the PMCOU (Working Together Foundation 2013).

Various social enterprise models in different countries have influenced the PMCOU’s discussions of alternative strategies to create jobs for vulnerable and poor groups of people. They include the following: France Active in France, Red Arana in Spain, the Non-Profit Organization law in Japan, and the Center Link system in Australia. After a series of studies and discussions of alternatives to the market approach, the concept of social economy gained traction and was adopted as the PMCOU’s alternative strategy (Working Together Foundation 2013).

With the social economy as a key strategy to generate decent employment for vulnerable and poor groups of people and the remaining funds of KRW 40 billion, the PMCOU became an incorporated foundation, called the Working Together Foundation, in 2003. Mandated with enhancing social solidarity and creating decent employment, it targeted the long-term unemployed in their 40s and 50s, youth, workers with precarious employment, women, persons with disabilities, and older adults. Assuming that these targeted groups would be receiving direct subsidies from the expanding NBLs, the Working Together Foundation prioritized various measures to create jobs. More than two-thirds of the first annual budget was spent on supporting local civil society organizations in their provision of job services and training to the unemployed. Social enterprises became one of the major channels for creating decent jobs for vulnerable and poor groups of people (Working Together Foundation 2013).

While the Foundation supported community-based SEOEs by funding their recurring costs, the Ministry of Health and Welfare (MoHW) also expanded its self-reliance programme by setting up Self-Reliance Aid Centres (SRACs) at the province, metropolis, district

and county levels. Many of the local organizations supported by the Foundation made a contract with the MoHW and converted into SRACs.

Socially Useful Employment Projects and SE

In 2003, the Ministry of Employment and Labor (MoEL) initiated the Socially Useful Employment Project (SUEP) which aimed to provide financial support for the creation of jobs in social service provision. The SUEP spread quickly to other ministries, and by 2007, a total of 11 ministries had joined this project, substantially increasing the budget and the number of beneficiaries (No 2008).

Table III.3. Socially useful employment projects

	2003	2004	2005	2006	2007
Ministries involved	1 (Ministry of Labour)	6	7	8	11
Budget (000,000 KRW)	730	9,490	16,910	67,820	129,450
Beneficiaries	2,000	47,491	69,314	111,897	201,059

Source: No 2008

While most benefits went to those taking up jobs provided by the government, some also went to various types of SEOEs such as cooperatives, social enterprises and Self-Reliance Enterprises (SREs). In 2006, a total of 438 SEOEs received benefits from the SUEP (No 2008).

Legislation concerning social enterprises and cooperatives

As some sectors of SE grew, the demand for legal recognition and for government support increased. Both ruling and opposition political parties also recognized the potential of SE as a tool to create jobs in a context of growth without jobs and as a way to reduce welfare dependency (Woo 2017). Key civil society actors, particularly those working for SEOEs such as *Saenghyup* cooperatives and Self-Reliance Communities, however, did not have a unified position. For instance, those working in SRCs and Socially Useful Employment Projects expected to receive more support from the government through legislation, while some CSO activists and researchers pointed out that the legislation might result in government cooptation of the SE sector, which could undermine its values and principles (Kim 2009a).

Before SEOEs had developed a unified position on the form and content of legislation, and without sufficient consultation with civil society, a bill on the promotion of social enterprises as a tool to create jobs for the poor and vulnerable was pushed forward by the ruling and opposition parties together, at the National Assembly. The Social Enterprise Promotion Act (SEPA), containing various supporting mechanisms for social enterprises, passed and was enacted in 2007. One of the most controversial issues in the Act is its stipulation that in order to be certified by the government, social enterprises must meet certain conditions such as the provision of social services and creation of jobs for poor and vulnerable people in the Republic of Korea. These criteria mean that certain forms of SEOEs cannot be certified as social enterprises and excludes them from government support. For instance, SEOEs working on fair trade to help the poor and vulnerable outside Korea, or those doing eco-friendly business, cannot be certified unless they hire or provide social services to poor and vulnerable Koreans (Byeon 2017).

The process to establish the Framework Act on Cooperatives (FAC) showed a similar pattern to the SEPA, in that it was supported by both ruling and opposition parties alike. Influenced by the UN's International Year of Cooperatives in 2012, the FAC became law the same year. By setting fewer requirements for recognition as a cooperative, this legislation allowed more freedom to organize cooperatives than the individual laws for specific types of cooperatives. The Act distinguishes between cooperatives as for-profit corporations and social cooperatives as non-profit organizations which are not allowed to distribute dividends to their members. It also specifies that social cooperatives should provide social services and help create jobs for poor and vulnerable groups, or contribute to creating public goods. While giving legal recognition to cooperatives with a social mission, the clear demarcation between cooperatives as for-profit corporations and social cooperatives as non-profit organizations tends to undermine the growth potential of the social cooperative sector and its economic viability. The Act does not stipulate the government support mechanisms for social cooperatives, other than the general benefits for non-profit organizations. Despite having weak fiscal capacity, local governments have established support mechanisms for social cooperatives since they recognized their potential to reduce poverty through job creation and social service provision (Jang 2018).

The current landscape of the SE sector in the Republic of Korea

Since the late 1950s, various laws have provided legal status to diverse forms of cooperatives. Those laws, some of which had colonial origins, focused on specifying the government's supervisory and regulatory roles and functions on the one hand and restricting the establishment of cooperatives by setting complex requirements such as a significant amount of initial capital and number of members needed in order to be certified. The cooperatives based on these laws are heavily supervised and regulated by the government and have functioned as the extended arm of the central ministries which had exclusive mandates for these cooperatives.

Table III.4. Laws governing producers' cooperatives

	ACTS	COOPERATIVES	CENTRAL MINISTRY WITH THE SPECIFIC MANDATE
1957	Agricultural Cooperatives Act (colonial origin)	Agricultural Cooperatives	Ministry of Agriculture, Food and Rural Affairs
1961	Small and Medium Enterprise Cooperatives Act	Small and Medium Enterprise Cooperatives	Small and Medium Business Administration
1962	Forestry Act (colonial origin)	Forestry Cooperatives	Korea Forest Service
1963	Fisheries Cooperatives Act (colonial origin)	Fisheries Cooperatives	Ministry of Oceans and Fisheries
1963	Tobacco Production Cooperatives Act	Tobacco Production Cooperatives	Ministry of Strategy and Finance
1980	Forestry Cooperatives Act (colonial origin)	Forestry Cooperatives	Korea Forest Service
1982	Community Credit Cooperatives Act	Saemaul Community Cooperatives	Ministry of Strategy and Finance

Source: Jang 2018

In contrast to these cooperatives, other forms of SEOEs were based on later laws established from the late 1990s, which provide more freedom and autonomy, and sometimes supporting mechanisms. Thus the universe of SEOEs in the Republic of Korea comprises

Table III.5. Laws and guidelines helping to grow the SE sector

	ACTS	SEOs	CENTRAL MINISTRY WITH THE SPECIFIC MANDATE
1972	Credit Unions Act	Credit Unions	Ministry of Strategy and Finance
1999	Consumer Cooperatives Act	Saenghyup and Consumer Cooperatives	Ministry of Strategy and Finance
	National Basic Living Security Act	Self-Reliance Enterprises	Ministry of Health and Welfare
2007	Social Enterprise Promotion Act	Various PCSEs and CSEs	Ministry of Employment and Labor
2010	Ministerial Implementation Guidelines to promote Village Enterprises	Village Enterprises	Ministry of the Interior and Safety
2012	Framework Act on Cooperatives	Social Cooperatives	Ministry of Strategy and Finance

Source: Ministry of Government Legislation 2018

organizations based on special laws and ordinances, entities that finance SEOEs (such as credit unions), various corporations with social missions, and a variety of supporting organizations.

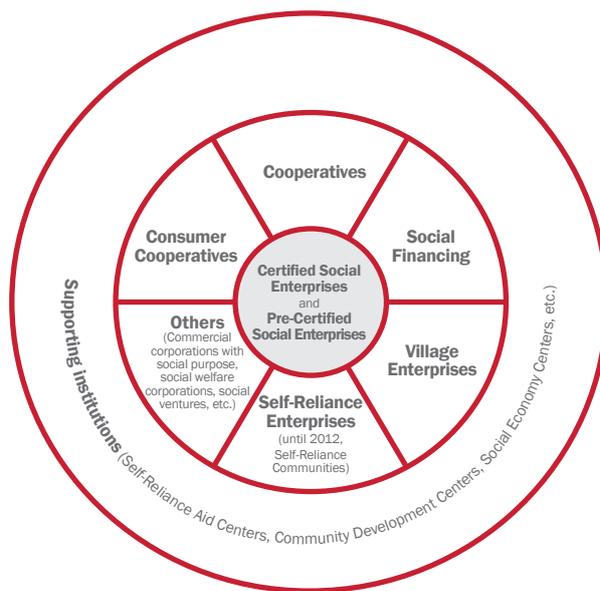
The SE sector broadly defined—that is, including producer cooperatives such as agricultural and fisheries cooperatives established under the Agricultural Cooperatives Act (1957) and Fisheries Cooperatives Act (1962)—was estimated to occupy 0.82 percent of the total number of employees in the Republic of Korea and contribute around 3.6 percent of GDP in 2016 (Kim 2017).

The following sections focus on SEOEs that are based on legislation since the late 1990s.

Self-Reliance Enterprises

Self-Reliance Enterprises (SREs) are established by one or two beneficiaries of the NBLs Act, or persons belonging to legal categories of vulnerable groups, and at least one-third of employees must be NBLs beneficiaries. SREs have the legal status of either cooperatives or corporations. The support from the government is diverse. It includes business loans with a discounted interest rate, start-up funding, installation costs for machines and facilities, subsidies for salary

Figure III.2. Taxonomy of SEOEs in the Republic of Korea



costs on a sliding scale, free lease of state-owned land, and preferential public procurement of goods and services. Subsidies for salary costs can be provided to beneficiaries of the NBLs, non-beneficiaries, and experts for up to five years, six months and five years respectively (Kim, Yang, and Kang 2016).

Between 2000 and 2016, 1,760 SREs were established. However, 426 SREs have been closed down or are dormant, that is, they have stopped business, and as of 2016 562 SREs were being supported by SRACs. SREs are mainly active in labour intensive low-skilled sectors such as cleaning, house repair, delivery, nursing and care, and restaurant and catering (see Table III.7).

Most SREs are small. Those with fewer than or equal to four workers account for more than 50 percent of SREs while those with more than and equal to 10 workers were only about 10 percent of all SREs in 2016 (Central Self-Sufficiency Foundation 2016). Many SREs have become CSEs because of their focus on helping poor and vulnerable groups of people (see below, and Table III.11).

Saenghyup cooperatives

Since 1999 the Saenghyup cooperative sector has grown in various fields such as organic food, medical service, child care service, and school supplies. As Table III.8 shows, the total number of members in the 146 major Saenghyup cooperatives for transactions in organic food reached almost 1 million, and the total amount of sales surpassed KRW 10 trillion (around USD 10

Table III.6. Key characteristics of major SEOEs in the Republic of Korea

	Self-Reliance Enterprises (SREs) former Self-Reliance Communities	Consumer Cooperatives (including various types of <i>Saenghyup</i>)	Certified Social Enterprises (CSEs) and Pre-Certified Social Enterprises (PCSEs)	Village Enterprises (VEs)	Social Cooperatives
Number of entities	1,334 (2016)	10,253 (2015)	1,877 (March 2017)	1,446 (2016)**	688 (May 2017)
Conditions related to paid workers	More than one or two NBSA beneficiaries or a person belonging to the legal category of vulnerable group*	None	None except for two types of CSEs focusing on job provision to those belonging to the legal category of vulnerable group*	Residents	None
Responsible Ministry	Ministry of Health and Welfare (MOHW)	Korea Fair Trade Commission (KFTC)	Ministry of Employment and Labor (MOEL)	Ministry of Interior and Safety	Ministry of Finance and Planning (MOFP)
Legal basis	National Basic Livelihood Security Act (NBSA) (2000)	Consumer Cooperatives Act (1999)	Social Enterprise Promotion Act (SEPA) (2007)	Implementation Guidelines of the Ministry of the Interior and Safety (MoIS)	Framework Act on Cooperatives (2012)
Organizational status	For-profit or non-profit corporations	Consumer cooperatives	Certified Social Enterprises and Pre-Certified Social Enterprises	Various forms	Cooperatives
Major direct support from the government	Support for creation and management, subsidy for salaries on a sliding scale	No	Support for management, tax allowance, loans, subsidy for salaries on a sliding scale	Financial support, management education and training	No

Source: Kim, Yang, and Kang 2016, iCoop Cooperative Research Institute 2016, Korea Social Enterprise Promotion Agency 2018, Yoon and Choi 2017, Korea Local Promotion Foundation 2016, Korea Social Enterprise Promotion Agency 2017. Notes: * The following are legally considered vulnerable groups: persons whose household income is less than 60 percent of the national average household income, persons aged over 55, persons with disabilities, victims of prostitution, beneficiaries of employment promotion grants, refugees from North Korea, victims of domestic violence, beneficiaries of the Single Parent Family Support Act, foreign nationals married to Koreans, parolees and others designated by such laws as the Crime Victim Protection Act and the Framework Act on Employment Policy. ** This is the number of Village Enterprises officially supported by the Ministry of the Interior and Safety (MoIS). The number of Village Enterprises has increased significantly since 2000. The estimated number was about 12,000 in 2016, 3,500 of which were supported by various ministries including the MoIS.

billion) in 2015. The sales volume was almost the same as that of convenience stores across the country. The total number of cooperative stores reached 519 by the end of 2015 (see Table III.9).

Certified and Pre-Certified Social Enterprises

Certified Social Enterprises (CSEs) and Pre-Certified Social Enterprises (PCSEs) are based on the Social Enterprise Promotion Act (SEPA). One of the main purposes of the Act is to provide criteria for granting certification to social enterprises, which qualifies them to receive various types of support from the government (see Table III.10). The types of support include: financial support for land and equipment costs, preferential purchase in the procurement process, reduction of tax and subsidies for social insurance, and support for management, administration and salaries.

Table III.7. Number and profile of Self-Reliance Enterprises

	2012	2013	2014	2015	2016
Number	-	-	1,339	1,339	1,334
Main Sectors	Cleaning (23.3%)	Cleaning (19.6%)	Cleaning (19.8%)	Cleaning (22.8%)	Cleaning (16.3%)
	Nursing and care (9.9%)	Restaurant and catering (9.7%)	Restaurant and catering (12.3%)	House repair (21.9%)	House repair (12.8%)
	House repair (8.8%)	House repair (9.1%)	Delivery (11.1%)	Restaurant and catering (14.7%)	Nursing (10.6%)
	Restaurant and catering (8.4%)	Nursing and care (6.6%)	House repair (9.9%)	Delivery (13.6%)	Restaurant and catering (9.4%)
	Collection of materials for recycling (6.5%)	Delivery (6.6%)	Nursing and care (3.9%)	Nursing and care (10.0%)	Agriculture, livestock and fishery (7.8%)

Source: Kim, Yang, and Kang 2016; Central Self-Sufficiency Foundation 2015, 2016

The Act specifies five types of social objectives for social enterprises which are closely related to the criteria for certification. The objectives are: job provision; social service provision; local community contribution; mixed purposes; and others. In particular, the SEPA has a strong emphasis on creating employment for vulnerable groups of people, such as homeless, long-term jobless, the poor, and persons with disabilities, whose numbers have multiplied since the 1997 financial crisis and ensuing austerity measures. Various forms of social economy organizations and enterprises, including some with legal status as for-profit corporations, have been certified. Although a rigorous review process to certify CSEs is in place, the inclusion of for-profit corporations runs the risk of organizational isomorphism, that is, SEOEs may assume some of the characteristics of market actors and institutions as the share of for-profit enterprises and economic entities increases among CSEs (Utting 2016).

Table III.8. Membership numbers and sales of Saenghyups specialized in organic food (billion KRW)

	1998	2003	2008	2013	2015
iCOOP Korea	1.5 (0.7)	27.8 (11.6)	1,301 (54.7)	4,279 (195)	5,256 (238)
Hansalim	11.7 (22.2)	49.5 (76.5)	1,326 (170.8)	3,045 (410)	3,625 (535)
Dure saenghyup	2.1 (-)	13.6 (15.9)	368 (44.6)	1,017 (142)	1,162 (176)
Minwoohoe saenghyup	1.2 (3.0)	5.7 (9.5)	114 (17.2)	170 (30)	210 (38)
Total	16.5 (25.9)	96.5 (113.6)	3,109 (287.2)	8,510 (777)	10,253 (987)

Note: 1,000 members in parentheses
Sources: Annual reports of each federation of the four consumer cooperatives

Table III.9. Share of sales volume by type (2014)

	Volume of sales (trillion KRW)	Share (%)
Department store	29	17.4
Walmart-style large mart	39	23.4
Supermarket	35	21.0
Convenience store (or kiosks)	13	7.8
Retail without store (online shopping mall etc.)	41	24.6
Four major consumer cooperatives (iCoop Korea, Hansalim, Dure Saenghyup, Minwoohoe Saenghyup)	10	6.0
Total	167	100

Source: Nam 2015

From 2009, the government also established a less demanding set of certification criteria for Pre-Certified Social Enterprises (PCSEs) (see Table III.10). The Ministry of Employment and Labor encouraged economic and social entities undertaking Socially Useful Employment Projects to seek certification as PCSEs (and ultimately CSEs), and it also gave local governments the authority to identify (potential) PCSEs in their local areas. As of 2017, out of 918 local-type PCSEs, 171 were in Seoul (see Table III.13).

As Figure III.3 illustrates, the numbers of PCSEs and CSEs increased during the past 10 years. As of November 2016, 3,253 entities had applied for certification and 1,864 SEOEs were certified as CSEs. 1,672 of the SEOEs certified as CSEs are active in business (Korea Social Enterprise Promotion Agency 2016). The number of jobs created by CSEs increased to 36,558 at the end of 2016, 22,647 of which are held by people from vulnerable groups.

Table III.10. Criteria and support: PCSEs and CSEs

	PCSE	CSE
Criteria	Organizations and enterprises with legal status	Organizations and enterprises with legal status
	Employs paid workers for more than three months	Employs paid workers for more than three months
	Realization of social value (e.g. provision of social service and jobs to vulnerable people)	Realization of social value (e.g. provision of social service and jobs to vulnerable people)
	Has a constitution	Has a constitution
	Reinvestment of 2/3 of profits (in the case of commercial firms)	Stakeholders participate in decision-making process
Direct support	Subsidies for salary costs of workers	Subsidies for salary costs of workers
	Subsidies for salary costs of experts	Subsidies for salary costs of experts
	R&D	R&D
Indirect support	Consultation on management	Consultation on management
	Tax allowance	
	Support for four major national insurance premiums	
Details of Subsidy for Salary Costs	Loans	Loans
	Preferential public procurement of products and services	
	Cover salary costs for three years (Minimum wage for workers and median wage for one professional. Sliding scale by years of support)	Cover salary costs for three years (Minimum wage for workers and median wage for one professional. Sliding scale by years of support)

Source: Korea Social Enterprise Promotion Agency 2016

Table III.11. Profiles of Certified Social Enterprises

Pathways to Certified Social Enterprise from*	Pre-Certified Social Enterprise (998)	Self-Reliance Enterprise (164)	Village Enterprise (31)	Workshop of persons with disabilities (131)	Rural Village Enterprise (10)	Cooperative (112)	Other (458)	
Legal status	Non-profit					For-profit		
	Corporation by civil law (251)	Non-profit civil organization (101)	Social welfare corporations (87)	Rural cooperatives (77)	Social cooperatives (47)	Corporations by commercial law (987)	Rural corporations (46)	Cooperatives (73)
Certified Social Enterprises by social purpose	Provision of jobs (1,171)	Provision of social services (103)	Contribution to the local community (62)	Mixed (169)	Other (167)			
Certified Social Enterprise by industry	Culture and arts (12.1%)	Cleaning (10.2%)	Education (8.3%)	Environment (6.8%)	Social welfare service (6.3%)	Nursing and home help (5.8%)	Childcare (2.4%)	Others (53.9)

* Double counting possible.

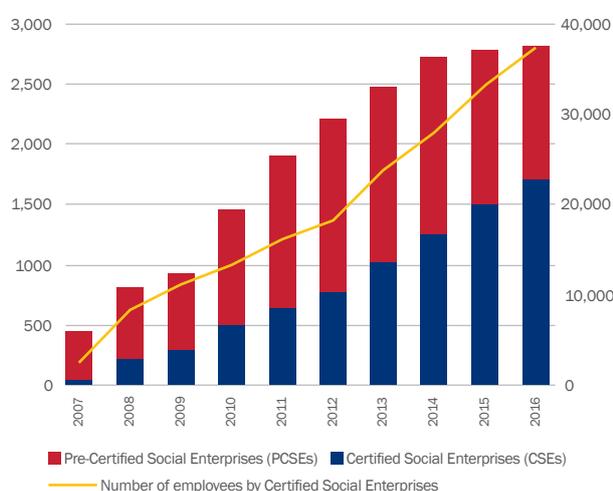
Source: Korea Social Enterprise Promotion Agency 2016

About 60 percent of CSEs were previously PCSEs, which demonstrates the significant role of PCSEs in promoting social enterprise. Regarding social purpose, the number of CSEs focusing on the provision of jobs is high, accounting for 70 percent of all CSEs. For-profit corporations account for about 60 percent of all the legal statuses, followed by non-profit corporations. This indicates an increasing number of for-profit corporations with social missions, as well as the risk of institutional isomorphism.

CSEs are categorized into five different types according to their main purpose: job provision, social service provision, contribution to local community, mixed and other. The share of CSEs categorized as job provision type increased from 46.4 percent in 2009 to 69.7 percent in 2016, whereas the shares of

social service provision type and contribution to local community type decreased (KSEPA, 2016) (see Table III.12). The share of social service provision type, such as CSEs providing social welfare and day care, decreased—from 16.8 percent in November 2012 to 8.2 percent at the end of 2016. This trend, showing an increase in job provision CSEs, partly reflects the government's policy focus on job creation and a bias towards more tangible indicators such as the number of jobs rather than social values.

The Social Enterprises Promotion Act also stipulates that local governments must provide support for Certified Social Enterprises. Finally, it allows central ministries to certify SEOEs as PCSEs. As of 2016, about 1,000 PCSEs had been selected by central ministries.

Figure III.3. The growth of CSEs and PCSEs and the number of employees in CSEs in the Republic of Korea

Source: Korea Social Enterprise Promotion Agency 2015, 2017b

Table III.12. Types of active certified social enterprises classified by their mission

	2009	2012	2016
Job Provision	134 (46.4)	473 (61.1)	1,194 (69.7)
Social Service Provision	37 (12.8)	54 (7)	107 (6.2)
Mixed	77 (26.6)	128 (16.5)	171 (10)
Contribution to Local Community	41 (14.2)	8 (1)	67 (3.9)
Others	-	111 (14.3)	174 (10.2)
Total	289 (100)	774 (100)	1,713 (100)

Source: Korea Social Enterprise Promotion Agency 2017a, Kim and Hwang 2016

Village Enterprises

In 2010, the Ministry of the Interior and Safety established Ministerial Implementation Guidelines to promote Village Enterprises. The SEPA was also modified then to add the “local community contribution type” to the existing categories of social enterprises (Bidet and Eum 2015a). Then a number of ministries introduced various local community programmes and related projects based on local community-related laws and ordinances to create more self-reliant communities by mobilizing local resources. The number of community-related programmes exceeded 20 by the end of 2015 (Korea Local Promotion Foundation 2016a) (see Table III.14).

One of the major aims of these programmes was to provide job opportunities for residents and marginalized groups and help them to actively engage in economic activities that would directly contribute to the development of their residential areas (Bidet and Eum 2015b).

Village Enterprises (VE) selected by various ministries are locally based business entities that conduct economic activities with the primary purpose of fostering the development of their residential areas. They aim to address unmet needs of residents while yielding sustainable socioeconomic benefits at individual and society level (Korea Local Promotion Foundation 2017). According to the Village Enterprise Programme of the Ministry of Interior and Safety, the title of Village Enterprise can be granted to different types of organizations including for-profit corporations, cooperatives, non-profit corporations and agricultural corporations, if they are managed and governed primarily by residents.

A Village Enterprise should meet the following conditions: (i) be created by at least five people, all of whom come from the village where the enterprise is located; if the number of owners exceeds five, then

the proportion of residents in the enterprise should be more than 70 percent; (ii) the aggregated capital of those five owners should be at least 10 percent of the total business operating budget; (iii) the share of the largest investor must not exceed 30 percent of the total capital; (iv) the enterprise must mobilize mainly local resources for economic activities and at least 70 percent of the workforce must be made up of residents (which is the main difference in requirements between Social Cooperatives and Village Enterprises); and (v) more than 50 percent of the profits must be saved as a reserve for reinvestment (Korea Local Promotion Foundation 2017).

Upon being certified, VEs can receive start-up funding of USD 50,000 in addition to business-related services, such as management education, accounting support and IT support, from the government.

As of December 2016, there were 1,446 VEs certified by the MoIS, which provided 16,101 jobs (Korea Local Promotion Foundation 2017). While activities carried out by VEs are diverse, the main activities can be divided into the areas shown in Figure III.4.

In rural settings, the VE model was initiated by the Ministry of Agriculture, Food, and Rural Affairs (MAFRA) in 2010. Rural-urban migration in recent decades has produced a rapidly ageing and shrinking population in rural areas, leading to employment decline and economic downturn. As a means to address such issues specific to rural areas, the MAFRA has promoted VEs as an alternative model that could rejuvenate rural communities based on voluntary participation of village people (MAFRA 2011). Based on mutual interest and support, they aim to contribute to the development of their villages by creating jobs and income and mobilizing local resources for economic and social development. Once certified, they receive funding from the government for operations, marketing, technology development,

Table III.13. Pre-Certified Social Enterprises (percent)

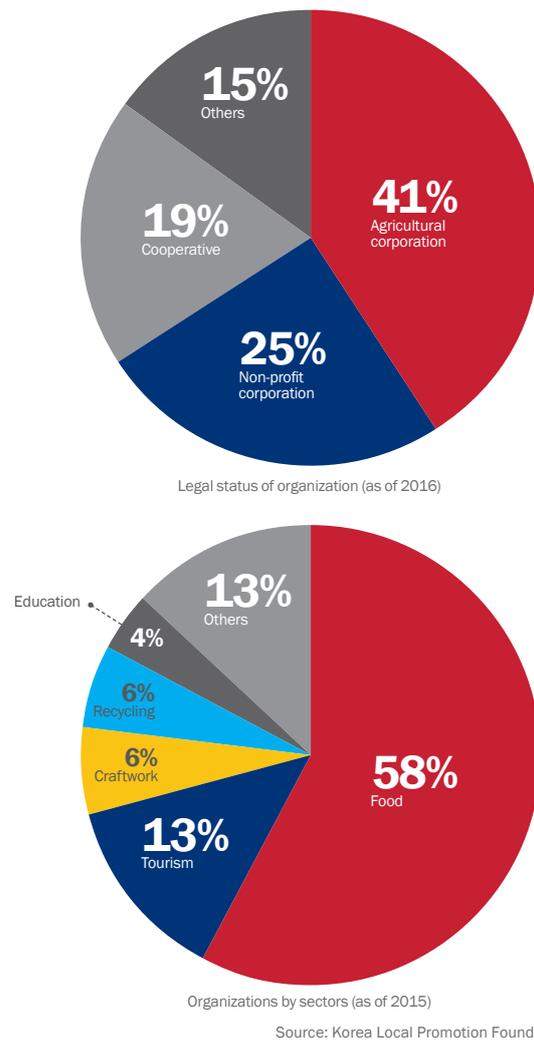
PCSEs selected by central ministries (as of June 2016)	Ministry of Agriculture, Food and Rural Affairs	Cultural Heritage Administration	Ministry of Gender Equality and Family	Ministry of Health and Welfare	Ministry of Unification	Korea Forest Service	Ministry of Environment		Total 100
	6	9	16	13	10	24	22		
PCSEs selected by local governments (as of November 2017)	Gangwon	Gyeonggi	Gyeongnam	Gyeongbuk	Ulsan	Incheon	Jeongnam	Jeongbuk	Total 918
	55	132	51	85	31	49	45	47	
	Jeju	Choongnam	Choongbuk	Gwangju	Daegu	Daejeon	Busan	Seoul	
	22	32	35	24	45	28	59	171	7

Source: Social Enterprise Information System 2018

Table III.14. Community programmes and relevant legal basis

Ministry	Main Programmes	Legal Basis
Ministry of the Interior and Safety	<ul style="list-style-type: none"> Community enterprise Information-oriented village Border area support project Hope Village 	<ul style="list-style-type: none"> Electronic Government Act Special Act on Support for Border Area
Ministry of Agriculture, Food and Rural Affairs	<ul style="list-style-type: none"> Agricultural community enterprise Rural village remodelling Green farm village Experience village 	<ul style="list-style-type: none"> Rearrangement of Agricultural and Fishing Villages Act Special Act on Improvement of Quality of Life for Farmers and Fishers and Promotion of Development in Rural Areas Special Act on Balanced National Development
Ministry of Land, Infrastructure and Transport	<ul style="list-style-type: none"> Urban regeneration Enhancement of urban vitality Improvement of living conditions in vulnerable urban areas 	<ul style="list-style-type: none"> Special Act on Promotion of and Support for Urban Regeneration
Ministry of Environment	<ul style="list-style-type: none"> Villages with excellent natural environment 	<ul style="list-style-type: none"> Natural Environment Conservation Act
Ministry of Oceans and Fisheries	<ul style="list-style-type: none"> Strengthening capacity of fishing villages 	<ul style="list-style-type: none"> Fishing Villages and Fishery Harbors Act Special Act to Support the Development of Specialized Fishing Villages
Ministry of Culture, Sports and Tourism	<ul style="list-style-type: none"> Cultural development in towns Cultural tourism development 	<ul style="list-style-type: none"> Regional Culture Promotion Act Tourism Promotion Act Culture and Arts Promotion Act
Korea Forest Service	<ul style="list-style-type: none"> Mountain village development 	<ul style="list-style-type: none"> Forestry and Mountain Villages Development Promotion Act
Cultural Heritage Administration	<ul style="list-style-type: none"> Cultural heritage site preservation 	<ul style="list-style-type: none"> Cultural Heritage Protection Act

Source: (Korea Research Institute for Local Administration 2014)

Figure III.4. Legal status and sectors of Village Enterprises

and publicity in addition to consulting services for the next two years (Hong 2011). As of 2014, there were a total of 867 agricultural Village Enterprises across the nation, which provided 24,749 jobs (KDI 2014).

Cooperatives other than Saenghyup cooperatives

The Framework Act on Cooperatives simplified the process and reduced requirements needed to set up two types of cooperatives: cooperatives as for-profit corporations and social cooperatives as non-profit corporations. In contrast with the more complex requirements in the eight Acts for cooperatives in specific sectors (seven Acts in Table III.4 and the Credit Unions Act), the FAC grants the legal status of a cooperative to any organization with at least five members, a cooperative constitution, an initial investment (with no minimum threshold) and democratic decision-making process which submits

the necessary documents to its local government. The FAC defines cooperatives as organizations which purchase, produce, sell and/or provide services based on the cooperative principle with the aim of serving the interests of their members and contributing to the development of the community.

By providing a legal definition for social cooperatives, it also recognizes and provides support for more social mission-oriented cooperatives. Social cooperatives are defined as undertaking activities to strengthen the rights and increase the welfare of people in the community, or provide social services or employment to vulnerable people. They should be non-profit organizations, that is, they are not allowed to distribute dividends to members, in contrast with other types of cooperatives.

When the FAC was passed, the Republic of Korea transitioned from a country with a special law system on cooperatives, like Japan, to a country with a mixed system of general laws and special laws for cooperatives, like France, meaning that it began to provide a broader legal basis allowing more diverse forms of cooperatives (Jang, 2016).

As Table III.15 shows, the number of cooperatives based on the FAC increased considerably over a short period: 10,401 cooperatives were created during the first four years after the FAC came into effect. Of these, 9,763 were for-profit cooperatives such as small entrepreneur cooperatives, freelancer cooperatives, worker cooperatives, and community-enhancing cooperatives, while 582 were non-profit social cooperatives. About 120,000 people have participated in the creation of cooperatives and invested approximately KRW 160 billion (about USD 176 million; or USD 1,457 per person) at the time of their establishment. The activities of newly established cooperatives include commerce, agriculture, manufacturing, food service, lodging, recycling, solar power, education, culture, social services, and consulting.

Table III.15. The accumulated number of different types of cooperatives

	2013	2014	2015	2016
For-profit co-ops	2,943	5,938	7,880	9,763
Social co-ops	102	262	362	582
Federations	12	35	47	56
Total	3,057	6,235	8,289	10,401

Source: Ministry of Strategy and Finance in South Korea (each year)

Other forms of social economy

Finally, there has been a growing number of various forms of organizations with a strong focus on realizing social objectives such as the reduction of poverty, inequality and unemployment, environmental protection, and enhancing social cohesion. They do not have the specific legal status provided by the laws on cooperatives or social enterprises. Many social ventures, associations and foundations that provide community members with microcredit, business services, and social services such as education and consulting are included in this category. For example, *Sahoe yeondae eunhang* (Social Solidarity Bank), *Sinnaneun johap* (Joyful Union), *Hamkke ilhaneun jaedan* (Working Together Foundation), and *Hankook saghejeukkyungje yondae hoyi* (Korea Social Economy Solidarity Network) fall into this area of the social economy sector. Although the number of social economy organizations of this type is unknown, they have an important role in shaping the social economy sector in the Republic of Korea.

Intermediary organizations and network organizations of individual SEOEs are also very important in the SE universe. All the special laws of SEOEs include clauses for intermediary organizations such as SRACs, Korea Social Enterprise Promotion Agency, and Village Enterprise Aid Centres. Individual SEOEs also organize regional- and national-level councils in which member organizations and enterprises exchange information and experience, and learn from each other.

Social financing

Social finance aims to efficiently allocate financial resources for primarily social and environmental returns, as well as in some cases, a financial return. Despite an increase in demand for finance from the growing SE sector, the institutions, mechanisms and instruments for social finance are still underdeveloped in the Republic of Korea (Jang 2012). For instance, the FAC does not provide any clause allowing cooperatives in the finance and insurance sector to be set up. And existing cooperatives with a potential for social finance, such as credit unions and community credit unions, tend to make loans to commercial entities rather than SEOEs since they think the former are more reliable in providing repayment.⁸

The major institutions, mechanisms and instruments for social financing in the Republic of Korea can be

classified as public and private. The major sources of public social finance are: subsidies from the central and local governments; loans from government agencies; and funds for start-ups. The government also makes contracts with private institutions which manage a public fund for SE. One typical example is the Social Investment Fund in Seoul.

In the private sector, several organizations provide loans to SEOEs. The major organizations are *Sahoe yeondae eunhang* (Social Solidarity Bank), *Miso geungyung jungang jaedan* (Central Miso Financial Foundation), *Sinnaneun johap* (Joyful Union), *Hamkke ilhaneun jedan* (Working Together Foundation), and SK Group (Jang and Park 2013). It is notable that some of the large conglomerates have established supporting institutions for SE and provide loans to the SE sector (as in the case of SK Group). Some organizations also donate funds for SE to the government. The Seoul Metropolitan Government initiated social investment at the local government level by establishing the Social Investment Fund in 2013 (see Chapter IV).

Conclusion

The SE sector in the Republic of Korea has been formed by both bottom-up and top-down approaches. The former was driven by grassroots social movements and civil society organizations and was often linked with anti-colonial and anti-authoritarian political ideals and practices. The colonial authority and Korean governments also either initiated or responded to these bottom-up approaches. They have used either repressive or incentive measures, and sometimes both, to control (or at times co-opt) these bottom-up approaches for policy purposes. The top-down approach, particularly its strong control over some cooperatives through legal codes, has produced some adulterated forms of cooperatives which are not based on key cooperative norms and principles such as democratic self-management.

The reactivity and bureaucratic structure of the top-down approach of the government has also produced serious fragmentation in governance structures and a silo approach to the SE sector (Mendell et al. 2010, Mendell 2014). For instance, the Ministry of Finance and Planning is the ministry in charge of social cooperatives, while the Ministry of Labour and Employment is in charge of social

enterprises. Village Enterprises are regulated and supported by the Ministry of the Interior and Safety and have variants in rural areas which are regulated and supported by the Ministry of Agriculture, Food and Rural Affairs. Self-Reliance Enterprises, with their historical institutional links with the NBS, are governed and supported by the Ministry of Health and Welfare.

Recent government policies and acts to promote various forms of SEOEs, however, have had a positive impact on the growth of the SE sector, with support ranging from legal status to financial assistance. In particular, growth of SE in the context of welfare state expansion is a notable feature in the Republic of Korea in comparison with other countries, particularly many countries of the European Union that have turned to SE in the context of fiscal austerity. However, some legislation has created a dual structure within SE, which often undermines the potential of SEOEs for inter-organizational cooperation. The way the FAC separates cooperatives as for-profit corporations from social cooperatives as non-profit corporations is a case in point. In other cases, as we can see in the case of SEPA and its selection of CSEs, some laws run the risk of institutional isomorphism by allowing an excessive proportion of for-profit corporations in the SE sector.

Different interests, purposes and interpretations have shaped the nature and forms of actors in SEOEs, and this has created tensions between two distinctive approaches of SEOEs. One is based on an alternative economic approach, including social control of the economy and empowerment of disadvantaged people through capacity building and collective action, as seen for example in producer organizations in the 1990s. The second is a poverty reduction approach, interpreting SE as a tool to reduce poverty through creation of jobs and provision of services, which has been prevalent since the early 2000s. The question is whether and how the interactions between the bottom-up approach seeking an alternative more democratic economy, and the top-down approach emphasizing the productive welfare aspect, can somehow combine to create an enabling environment where SEOES fully realize their potential social, economic and environmental objectives, and contribute to the achievement of the SDGs, without sacrificing the fundamental values and norms of social economy such as democracy, solidarity and social inclusion.

ENDNOTES

¹ *Nong-hoe* are considered to be the organizational precursor of a type of agricultural cooperative called *Nonghyup*, which is now the largest sub-sector of the social economy sector in the Republic of Korea. The primary agricultural cooperatives and their federation employed over 77,000 workers in 2015 and over 1,000 primary agricultural cooperatives are recognized as a type of SE organization in the bill, Basic Law on Social Economy, proposed by parliament in 2015.

² *Saemaul Geumgo* gained its own legal basis when the Community Credit Cooperatives Act was enacted in 1982.

³ The positive results in terms of the reduction of the income gap between rural and urban areas and improvements in living standards in rural areas during the 1970s can be attributed to the combination of policies redistributing resources from urban to rural areas, such as land-to-tiller reform, pro-agricultural grain procurement policies and government subsidies combined with *Saemaul Undong*, rather than *Saemaul Undong* alone (Douglass 2014, Im 1997). Comparative research on two village case studies also shows that *Saemaul Undong* was not the sole driver of improvements in living standards. It suggests that the voluntary commitment of villagers was more effective in increasing incomes than initiatives within *Saemaul Undong* (Kim 2009b).

⁴ *Nonghyup* is the biggest cooperative then and now in the Republic of Korea, and is ranked as the fourth largest cooperative in terms of turnover in the world (ICA-Euricse, 2017).

⁵ The native Korean words *han* and *salim* come together to create the meaning “save all living things”. The mission of *Hansalim* is to save food, agriculture, life and planet.

⁶ *Sahoi bokji bubin* is a nonprofit organization which is regulated by a special law on social welfare corporations (Social Welfare Services Act of 1970). In the Republic of Korea, there are other corporations under special laws such as *hakyou bubin* (private school corporations), *jongyo bubin* (religious corporations), *euryo bubin* (medical corporations), and *tuiksu bubin* (special public corporations) (Kim and Hwang, 2002).

⁷ Because there is no official poverty line in the Republic of Korea, eligibility criteria for public assistance programmes are used to identify or refer to poor and vulnerable groups. For instance, the NBL Act stipulates the income level of its beneficiaries at the standardized median income plus 30 percent (NBL Act, Article 8, 2014). Other examples include the eligibility criteria of assistance programmes, used to identify “vulnerable groups”—including people who have difficulty purchasing the social services they need at market prices, people who have difficulty being employed under the normal labour market conditions, people with income less than 60 percent of the national average, people over age 55, people with disabilities, victims of prostitution, beneficiaries of employment promotion grants, refugees from North Korea, victims of domestic violence, beneficiaries of the single parent protection programme, foreign nationals married to Koreans, and parolees (Enforcement Decree of SEPA 2007).

⁸ Interview with Seok Jo-son and Young Woo-you, 2017.

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