

Social Enterprise Conference 2009
Social Enterprises in Korea

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1. Dr. Mohammad Yunus and Grameen Bank

In January, I went to Davos and attended several sessions of the forum, which is the most influential gathering of corporate and political leaders around the world. One of the most impressive sessions was about “social enterprises.” Dr. Mohammad Yunus, who won the Nobel Prize jointly with the Grameen Bank in 2006, also participated in the session. He is the founder of the Grameen Bank in Bangladesh which provides micro credit to poor people.

Rather than merely pursuing profit, micro credit institutions like the Grameen Bank are helping out people who are deprived of access to capital. The organizations help the poor to stand on their own feet by providing loans at low interests and on more favorable terms, assisting them to start their own business, and offering job training programs. The Grameen Bank began when Dr. Yunus lent 27 dollars to a group of villagers in 1973. Since then, the Bank has become a leading social enterprise that has loaned out over five billion dollars to 5.6 million people. The loan repayment rate is as high as 98 percent.

2. The Trajectory of Social Enterprises in Korea and Success Stories

It is relatively recent that a noticeable uptick is observed in the number of social enterprises in Korea. A law to support social enterprises was enacted in 2007, and the Ministry of Labor announced the Framework Plan for Social Enterprises in November 2008. Social service programs provided by for-profit businesses have increased significantly since then and certain progress has been made in job creation. It well demonstrates that entrepreneurship which contributes to strengthen the sense of community through sharing is thriving in our society. Some of the most successful cases are the “Beautiful Store”, a nationwide charity shop founded by Mr. Park Won Soon who is the keynote speaker of the second session of this conference, “SK Happy Lunchbox,” which provides free lunch to poor children and the elderly while hiring lunchbox cooks and delivery personnel, and “Dasomi Foundation” of Kyobo Life Insurance which offers free nursing service to the most vulnerable people in our society including those subsisting on government subsidies, the homeless, and migrant workers.

3. The Limits and Problems of Social Enterprises

1) Government Approach to Social Enterprises

Korea has witnessed significant progress in social enterprise activities despite its short experience in the field. But, it still has some way to go. Social enterprises can thrive when they are self sustaining and sustainable. However, government agencies including the Ministry of Labor take a narrowly focused approach to social enterprises: job creation. Therefore, they tend to be obsessed with statistics like how many social enterprises should be set up or how many jobs they created. It resulted in the lack of policies serving diverse aims and business types- selling goods or services- of social enterprises. What can also be pointed out is that there's no clear line between which social needs can be filled adequately by the government and which can be addressed through competition in the market. In particular, a phased approach is needed to verify potential social enterprises and provide more efficient support for them.

2) Building Social Enterprise Models for Korea

In order to set up models of social purpose businesses which best suit the country's situation, there needs to be enough studies and researches. The job, however, is dominantly done by the private sector at the moment. At this time of economic turmoil, it is difficult for the market to identify reliable models. The government also seems to have difficulty in presenting clear guidelines. However, it also is high time to provide guidelines about which direction we should go if we are to secure sustainability of social enterprises. More study should be conducted to increase public benefit for the long term.

3) The Role of the Government and Social Enterprises

There are many challenges to launch a social enterprise. It is why government support is necessary for technology development and human resource supply. Social enterprises also should make effort to get a competitive advantage in the marketplace. Being a social enterprise that is lazy in sharpening competitive edge is of no good for the development of social enterprises. For example, the government should offer a level playing field to all market players for its procurement. Once it is achieved, the rest of the process should be driven by market forces. Social enterprises failing to survive the competition should be gone.

4) Public Awareness of Social Enterprises

As public awareness about social enterprises rises, there's kind of a boom to launch social enterprises especially in a bid to create jobs. It is thanks to active promotion of the government

and achievements made by existing social enterprises. It should be noted, however, that promotion of the product and service of social enterprises, rather than raising awareness of the concept of social enterprises, is not enough. In order for social enterprises to be self-sustained, there needs to be enough demand for their goods and services. Currently, as many as 218 businesses have been certified as social enterprises by the Ministry of Labor and more will be coming into the field. However, there still are restrictions for the enterprises to participate in government procurement. If social purpose businesses are to be successful, they have to compete with quality goods and services. Of course, it is the job of the businesses to sharpen their edge but the government should also shift its focus to let the public know that the products and services of social enterprises are good enough.

5) Limitations to Support Social Enterprises

When compared to other OECD countries, the size and trade volume in the third sector, where many of social enterprises are incubated, are far smaller in Korea. In particular, traditional cooperatives and social welfare institutions, which take up the biggest part of the third sector, are slowly developed under the control of public agencies or are so dependent on government that they tend to be less innovative and resilient than private firms. Social enterprises have made a significant leap forward in the process of privatization of welfare sector in the U.K. and in the process of cutting welfare spending in the U.S. There are clear limitations for the government to provide support for social enterprises. To facilitate social enterprises, voluntary effort to increase the pie in the third sector and strengthen their capacity is in order.

6) Insufficient Investment and Support from Private Sector

Big for-profit businesses are increasing their contributions to social welfare. However, support and investment for social enterprises in private sector are not enough, being a major obstacle to facilitation of social enterprises. Donations in various forms such as cash, managerial support, and talent donation are essential and more attention and financial support from major NGOs and welfare foundations are also in need. To make it happen, more effort should be made to raise awareness in the issue.

4. Global Economic Crisis and Social Enterprises

Facing unprecedented economic meltdown, many countries are coming up with plans to tackle the challenges. However, without thorough reflection on greedy capitalism deep down in the causes of current economic crisis, the same will happen again anytime in the future. There's no need to mention the concept of creative capitalism put forth by Bill Gates to stress that capitalism and economy will flourish in soil nourished by sharing and donation. Social

enterprises, in the spirit of sharing and donation, provide social services, create jobs, and strengthen bonds among members of community. Dr. Yunus said at Davos that people said that it was crazy to run a business not pursuing profit. But when Warren Buffett makes profit and returns it to the society, no one would say that he was crazy. The only difference is whether we return the money in the process of the business or after making profit. Social enterprises have goals and rewards beyond making money itself, said Dr. Yunus. We still have challenges ahead, but it's time for the central government, local governments, businesses and civic groups to join forces to make difference.



SOCIAL ENTERPRISE AND SOCIAL SERVICE INDUSTRY

2009. 3. 12.

KEESUNG ROH

CENTER FOR SOCIAL SERVICE MANAGEMENT



KOREAN SOCIAL ENTERPRISES MAINLY CONSIST OF VARIOUS TYPES OF SOCIAL SERVICE BUSINESSES.

THE ELDERLY AND THE DISABLED CARE

CHILDREN CARE

AFTER SCHOOL EDUCATION FOR CHILDREN

INFANT EDUCATION

COMMUNITY SERVICES

HEALTH CARE SERVICE FOR THE DISADVANTAGED

FREE MEALS FOR LOW INCOME CHILDREN



THE KOREAN SOCIAL ENTERPRISE HAS FOLLOWING DISTINCTIVE FEATURES :

SERVICES PRODUCED BY SOCIAL SERVICE BUSINESSES ARE FOR THE DISADVANTAGED AND THE DISABLED.

THE DISADVANTAGED ARE HIRED AT THESE BUSINESSES FOR THEIR SELF-SUFFICIENT LIVING.

PROFIT ARE NOT GENERALLY EARNED UNLIKE THE SOCIAL ENTERPRISES DEFINED BY DIRECTOR BUGG-LEVINE FROM ROCKEFELLER FOUNDATION AND MS. DAVIDSEN OF INTER-AMERICAN DEVELOPMENT BANK.



MOST OF THESE BUSINESSES ARE SMALL AND FRAGMENTAL IN THEIR SCALE.

IN THIS SENSE, IT IS VERY DIFFICULT FOR THEM TO GAIN PROFIT AND TO INDUCE CAPITAL FROM THE PRIVATE SECTOR.




SOCIAL SERVICE INDUSTRY SHOULD BE COMPETITIVE AND PROFITABLE TO INDUCE DEMAND FROM THE MIDDLE AND HIGH INCOME CLASSES.

IT IS NECESSARY TO ENCOURAGE M&A, STRENGTHEN THEIR NETWORKING , FRANCHISE THE SIMILAR TYPE OF SOCIAL SERVICE BUSINESSES, AND DEVELOP HIGH QUALITY SERVICES.

IT IS NEEDED TO INDUCE CAPITAL INTO THIS SECTOR.

THE GOVERNMENT CAN PROVIDE SEED MONEY TO INCUBATE SOCIAL SERVICE VENTURE BUSINESSES.



Who Could be the Changemaker?

Y. J. Kwon
(Kyunghee Univ.)

Government vs. Market

- Gov't: Regulator or Supporter?
- Certification: Ex-ante vs. Ex-post?
- Tax Incentives vs. Rigid Law?
- Korean Case : Department of Labor?
- Social Enterprise vs. Social Firm?

Who is Social Entrepreneur?

- William Wilberforce: Change the History
- Nightingale: Build Nursing system
- Bill Drayton: Innovator as an Action Tank
- New ILHAN: Integrity and Progress
- Chang Keeryo: Community Health Insurance
- Ahn Cheol Soo, Park Won Soon, Chung Unchan

Who is Social Entrepreneur?

- Person with Intelligence, Heart, Ambition
- Optimist over the Criticism
- Action Tank beyond Think Tank
- Fishers of Men rather than Fishermen
- Person with Integrity and Thankgiving

Panel Discussion and Agenda for Action Plan

Gyutaeg Oh, Chung-Ang University

Current Status of Microfinance Development

As we know well, Microfinance has gained much publicity recently partly because the UN declared year 2005 as the year of Microfinance.

In developing countries, microfinance has proven to be an efficient and legitimate tool to help reduce poverty. Microfinance defies conventional wisdom: lending to the poor is not as risky as previously thought if the borrowers are carefully selected and the proper incentives are put into place.

As a result, the industry has evolved from microcredit in 1970s, to comprehensive microfinance in 1990s, (and to the “inclusive financial systems”).

Microfinance, however, is not only limited to developing countries. In developed nations, it has been recognized as the means of mitigating the “income disparity” problem, and as the means of cultivating the entrepreneurial spirits of the unemployed through social ventures in these nations.

Hence in both developing and developed countries, the focus of discussions has shifted to how to build the “inclusive financial systems” and to decrease the financing gap.

Korean Situations

Korean government has also recognized that microfinance could serve as a useful means of mitigating the income disparity problems that have been particularly prevalent in the nation.

Currently, there are at least four microfinance providers in Korea: Joyfulunion (established in 2000 starting with \$50,000 seed money from Grameen bank), the Social Solidarity Bank (SSB, established in 2002, the largest in size), Beautiful Foundation,

and the Social Welfare Bank .

Recently, the Korean government has further recognized that microfinance could be used to promote social ventures that would not only narrow the income disparity but also help create socially beneficial and necessary institutions.

Thus, the Korean government has established two foundations since 2007.

One is Korea foundation for social investment which was established in 2007 with funds from the Ministry of Health and Welfare, other government and private sectors

The other fund is Microfinance foundation (www.mif.or.kr) which was established in 2008 as the dormant account management fund. Total amount of deposits to dormant account is close to 270.2 billion KRW, and it provides 27.1 billion KRW microloans during 2008.

Despite these efforts, there are several issues that revolve around minimizing the financing gap in microfinance that deserve policymakers' attention.

The first issue is how to strengthen the existing MFIs to extend their outreach. The second issue is how to expand the scope of participants in microfinance areas. To achieve this goal, we must take advantage of leverage using current capital market instruments (by promoting risk sharing and a diversification scheme among participants).

European examples

It is important to look at the European experience to gain insights into how microfinance can be further nurtured in Korea.

As an economic policy, EC has also created a micro credit window in the MAP as part of SME Guarantee Facility (managed by EIF) with a special focus on promoting micro finance.

The guarantee window for microfinance continues during 2007-2013 in the Joint

European Resources for Micro to Medium Enterprises (JEREMIE) (2007-2013) as part of the European Regional Development Funds.

Another example, European Fund for Southeast Europe (EFSE), illustrates how microfinance is used as a regional cohesion policy in EU.

EFSE is a privately managed public/private investment fund which was established in December 2005. The fund is one of the biggest development fund (200 million euros).

The fund provides financing for micro, small and medium-sized enterprises, housing and rural finance (to commercial banks, microfinance institutions and other financial intermediaries) in Bosnia and Herzegovina, Serbia and Montenegro, and Kosovo and may expand to other Southeast European countries.

By providing microfinance loans in these developing parts of the EU, the fund helps shrink the gap between the developed and developing nations in the region.

From a more organizational standpoint, the fund is managed by a private investment manager and has quite an innovative structure made up of three parts.

Equity funding comes from donors such as EC (60 million euros), Swiss Agency for Development & Cooperation, and Netherland Development Finance Company.

Mezzanine financing is provided by EBRD, KfW, IFC, and FMO.

The fund also raises senior debts from the private sector to ultimately reach the size of 500 million euros.

This innovative structure illustrates how proper risk sharing and a diversification scheme among participants can promote microfinance investment and increase financing.

New Market Trends in Microfinance

Korea can also learn how to promote their microfinance industries from the recent new

trends in the industry.

There are at least two important financial innovations taking place in the microfinance industry today that are increasing financing across the board.

These two innovations are the Microfinance Investment Vehicle and securitization.

MIVs are socially responsible (private equity) funds that invest in microfinance institutions or securities related to microfinance activities

There were 74 funds in 2006. Out of the 74, 30 of the MIVs had been created since 2005.

Interestingly, 42 % of the investment currently occurs in Latin America and the Caribbean, and another 39% occurs in Eastern Europe and Central Asia. Thus, ASEAN+3 countries must make larger efforts to attract more investments from these MIVs.

The second innovation is the securitization of microfinance loans (conducted by BlueOrchard and XXEB).

Securitization of Microfinance Loan:Example

To illustrate the structure of microfinance securitization, we can study the BlueOrchard Loan for Development (which has acronym “BOLD”)

The deal was closed on April of 2006 and consisted of a pool of microfinance loans made up of 21 MFIs in 13 countries. The pool was also diversified by region in 5 currencies.

After pooling the microfinance loans, four tranches of microsecurities were issued and in the end, banks were the main investors of microsecurities.

(Illustrative) Policy Implications

From these observations, we can draw some tentative policy implications for Korean microfinance industry, in particular with regards to decreasing the financing gap.

First, the public sector should play a larger role in the microfinance industry, perhaps by promoting the sharing of microfinance experiences of other countries.

To facilitate this process, we may need to create microfinance network institutions. The European experience also shows that the provision of non-financial services, in particular mentoring, is particularly necessary to increase the chance of survival of start-ups and small enterprises.

Second, the guarantee window for microfinance can be created at Korea Credit Guarantee Fund.

Third, establishment of microfinance investment vehicles should be encouraged in Korea to increase financing.

Third, securitization should be promoted to further increase private investment in the industry.

International Conference on Social Enterprise 2009

Closing Discussion and Agenda for Action Plan

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Social Enterprise: Meaning and Scope

❖ Definition by Columbia Business School

Application of business skills (or tools or methods) to the solution of social problems

Here, social problems are defined as broad, including environmental problems and so on.

Institutional vantages are also defined as broadly as including (1) corporations, (2) nonprofit organizations, (3) social entrepreneurship, and (4) government agencies.

Social Enterprise: Meaning and Scope

- ❖ **Columbia Business School's approach reflects the pool of international students it has been attracting from all over the world.**
- ❖ **Korea might adopt a niche market approach focusing on its strengths and opportunities.**

Social Enterprise: Potential

- ❖ **What's the potential of social enterprise to the world and Korea?**
- ❖ **Possibilities of using market mechanisms and for-profit markets to address social problems like poverty**
- ❖ **The conflict between Making a profit and Having a social objective (or Creating a social value) disappears.**
- ❖ **Real success stories in different parts of the world**

Social Enterprise: Potential

- ❖ **What's the potential of social enterprise to address the social challenges faced by Korea?**
- ❖ **One example**
- ❖ **Economic polarization is underway in Korea since the financial crisis in 1997.**

In Korea since 1998, the social safety net system is being introduced but not fast enough to include the losers in this polarizing economy.

It is threatening the social integration in Korea.

Social Enterprise: Potential

- ❖ **What's the potential of social enterprise to address the social challenges faced by Korea?**
- ❖ **The government has various and inherent limitations to solve this problem: It lacks not only appropriate resources but also the knowledge of executing effectively.**
- ❖ **Social enterprise (applying business skills and market mechanisms to solve social problems) could be tried. The stock of the successful cases in other parts of the world should provide a good benchmark.**