

# Emerging Dual Legal Frameworks of Social Enterprise in South Korea: Backgrounds and Prospects\*

Jongick Jang (Department of Global Business, Hanshin University, South Korea)

## 1. Introduction

Social enterprise has emerged to innovatively deal with social problems that were not effectively managed by either market or government. However, the way of organizing social enterprise varies across countries. Existing literature has claimed that the emergence and development of social enterprise in Western countries and the US are more influenced by the voluntary initiatives of civil society than the state power whereas those in East Asian countries are more affected by the state power (Kerlin, 2009; Nyssens, 2006; Defourny and Kim, 2011). The difference in development path of social enterprise between the three regions is fundamentally ascribed to distinct institutional environments such as the characteristics of state, legal system, culture, norms, etc. Furthermore, Defourny and Kim (2011) cautiously pointed out the peril that social enterprises in East Asian countries including South Korea be degenerated since the civil society has not been yet solidly advanced to provide safeguard to resist the isomorphic pressures wielded simultaneously by the state and the market. Then a following important question would be how the capability and power of civil society is improved.

Taking this concern seriously, this paper examines the dynamic relationship between state and civil society in the development of social enterprise and more broadly social economy, using the case of recent development of social economy in South Korea. The case of South Korea is interesting because it offers dynamics in the relationship between state and civil society. Since the social enterprise promotion act (SEPA) was introduced in 2006 to deal with mainly unemployment issue of the working poor, policy makers, newly established social enterprise, consumer cooperative sector and civil organizations have been increasingly aware of the importance of voluntary efforts of citizens to nurture social economy. Two important events took place: the enactment of framework act on

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\* This paper is prepared for the 4<sup>th</sup> conference of EMES held at the University of Liege on July 1<sup>st</sup> – 4<sup>th</sup> 2013. It is very incomplete. Please do not circulate and quote.

cooperatives (FAC) in December 2011 and the emergence of partnerships between local governments and civil organizations.

The enforcement of FAC in December 2012 has been considerably influencing the landscape of social economy in South Korea in terms of ordinary citizens' increasing participation in activities of creating cooperatives of variety and the improvement in attitude of central and local government to social economy sector. The partnerships between local governments and civil organizations have been expanding over the country, with an aim to assist citizens to participate in activities of discovering and realizing opportunities to help resolve their common social economic issues by establishing a cooperative, social enterprise, community organization, or organization to support social economy.

This paper utilizes the two main occasions to explore how the relationships between the state and civil society have evolved and how civil society is getting initiatives in the social economy sector. Anchored at the previous research on social enterprise in South Korea (Bidget and Eum, 2011; Defourny and Kim, 2011), this paper provides the overall picture of social economy in South Korea in the following section. In section 3, we describe the legislation backgrounds, main contents, current results, and the future impacts of FAC. In section 4, we delineate the emerging partnerships between local governments and civil organizations and evaluate the impacts of the phenomena on the development of civil society in South Korea. Concluding remarks follow.

## 2. Development of Social Economy Sector in South Korea

The concept of social economy has developed in European countries in recent decades and is still evolving. Researchers, practitioners, and policy makers in European countries has agreed with that social economy consists of economic activities made by cooperatives, mutual societies, and non-profit organizations, which share some principles making them distinct from for-profit firms (Defourny, 1992; Defourny and Develtere, 2000; Monzon and Chaves, 2012). The principles include at least the priority of members' interest or collective interest to capital's interest or profit maximization objective; democratic decision making; the primacy of members and society over capital in the allocation of surplus (Defourny and Delveltere, 2000). Social economy is considered as an innovative approach to contribute to social integration, social innovation, and community development for which the results of market and state approach are not satisfactory (Monzon and Chaves, 2012).

In South Korea, the social economy has gradually attracted attentions from civil activists, policy makers, and researchers since it has been recognized as an innovative way of coping with socio-economic difficulties that the country has faced with in recent years. Although South Korea is well

known as a successful country achieving both economic growth and political democratization, it has in recent decades suffered from unemployment, deterioration of working conditions of non-regular workers, burgeoning of unsecure self-employed workers, polarization of income and wealth, mounting demand for social services resulting from rapid aging and social needs for women's active participation in economic activities, and environmental issues (see Grubb, et al., 2007; Jones and Tsutsumi, 2009; Bidet and Eum, 2011 for English version of literature on these issues ). These issues have become acute since South Korea underwent slowdown of economic growth rate and financial crisis in 1997 and furthermore, accepted and executed the reformation of labor markets that grants employers with more rights to lay off employees, which was recommended by IMF. Analyzing the causes and results of the issues, existing literature maintains that South Korea has experienced structural transformation from industrial age into post-industrial age and therefore, state-driven development strategy hold no longer effective ((Cheon, 1999; Cheon, et al., 2006; Go, 2008; Yoo, et al., 2012). The literature also suggests programs for reforming existing institutions and government policies in a way to encourage people's entrepreneurship, limit state power into dealing with various market failures, and nurture civil society

The concept of social enterprise rather than social economy came first to South Korea amidst policy makers and civil activists put efforts to manage unemployment problems caused by financial crisis took place in 1997. Table 1 chronologically illustrates the major events occurred from late 1980th to present in the development of social economy sector in South Korea. As Defourny and Kim (2011) pointed out, the policy makers and civil activists of South Korea were very active in learning from western European countries' experience of social enterprise among which a mix of Italian experience and UK's experience were adopted for enactment of SEPA in 2006. The main components of the act include classification of social enterprise with WISE alike, social enterprise providing social services, and social enterprise aiming community development; certification of social enterprise; and government subsidy for certified social enterprises that employ disadvantaged people in the early stage of their growth.

<Table 1> Major events in the development of social economy sector in South Korea

1988-2006	New cooperative movement after political democratization in 1988	Emergence and development of consumer cooperatives (organic food, medical, and child care)
	Worker cooperative movement after financial crisis in 1998	To provide the working poor with employment by establishing worker cooperatives (construction, clothing, cleaning, etc.)

	Introduction of National Basic Livelihood Security Act (1999)	Emergence of self-sufficiency enterprises by government-supported self-sufficiency promotion program for the working poor (WISE): cleaning, recycling, care service, etc. Introduction of a policy for creating social service jobs and emergence of non-profit organization providing the jobs
2007-2011	Enactment of Social Enterprise Promotion Act (2006)	Emergence of social enterprises certified and subsidized by government
	Civil society's increasing awareness to social enterprise	Policy for social enterprise is promoted by many ministries in both central and local governments. Organizations to support social enterprise have emerged.
2012-present	Introduction of Framework Act on Cooperatives (2012)	The act allows citizens to establish traditional cooperatives and social cooperatives. Start-ups of cooperatives have explosively burgeoned.
	Spreading out of social economy concept over the country	Local governments are increasingly involved in promoting social economy including cooperatives, social enterprises, and community activities. The emergence of social economy networks in local and regional level

Source: the author's own evaluation

Although there have been Korean civil society's voluntary efforts to deal with unemployment problems, including establishments of worker cooperatives and creating social jobs such as maintenance of forest and caring service for the poor elderly and child care service for working women, one may say that the development of social enterprise in south Korea has been initiated by the state (Bidet and Eum, 2011). The number of certified social enterprises has increased into 680 by June 2012 and they employed about 17,000 workers. As table 2 shows, 407 certified social enterprises, which is about 60% of total number, had a major social mission of providing workplaces for disadvantaged people such as low income earners, the elderly, the handicapped, and the long-term jobless, while 7.6% of total number of certified social enterprises aimed providing social service. 17.5% of total number of social enterprises had a mixed mission with WISE alike and social service provision. Certified social enterprises have engaged in activities of recycling, cleaning, culture, social welfare, housework and care working, manufacturing, renovation of house, etc.

<Table 2> Types of certified social enterprises classified by their mission and activities

Types of social enterprises classified by their mission								
Total	WISE alike		Social service provision		Mixed	Contribution to community		Others
680 (100%)	407 (59.9%)		52 (7.6%)		119 (17.5%)	5 (0.7%)		97 (14.3%)
Types of social enterprises classified by their activities								
Total	Education	Health	Social welfare	Recycling and cleaning	Culture	Daycare	Housework and care working	Others
680 (100%)	43 (6.3%)	12 (1.8%)	94 (13.8%)	117 (17.2%)	95 (14.0%)	22 (3.2%)	57 (8.4%)	240 (35.3%)

Source: Cheun, et al., 2012. Note: the data were produced as of June 2012.

As having been predicted, the growth of certified social enterprises in South Korea has largely relied on government's support. The results of a population survey on the certified social enterprises which was conducted in 2012 indicate that although the social enterprises have contributed to providing jobs for disadvantaged people, a non-trivial portion of them would have financial difficulties if government subsidy does not continue (Cheon, et al., 2012). In addition, the research states that not much found yet are social enterprises that have succeeded in obtaining sufficient support from civil society and in innovatively meeting social needs. Scholars, practitioners, policy makers have mostly agreed with the overall assessment on the first five years' performance of SEPC and its related measures and have attempted to improve the act and related government policies in ways to broaden social finance and socially responsible public procurement and encourage citizens to participate in social economy sector. However, they have not found yet an alternative to certification system and related subsidy policy which have inevitably resulted in some degree of *ex ante* adverse selection and *ex post* moral hazard problems.

As Defourny and Kim (2011) and Bidet and Eum (2011) state, there are other types of social enterprises in South Korea, which are not certified by the government, including self-sufficiency enterprises, local community businesses, consumers' medical cooperatives, community welfare centers, and social ventures. Although it is not known about the exact size of not-certified social enterprises due to their statistical lack, most people in the sector agree with that they are growing (Cheon, et al., 2012). More importantly, the landscape of social economy in South Korea has been significantly influenced by the passage of framework act on cooperatives in December 2011 and the

emergence of partnerships between local governments and civil organizations for the development of social economy sector. We will elaborate on these two factors in the subsequent sections in more details.

### 3. The Enactment of Framework Act on Cooperatives and Its Implications for the Social Economy Sector

Cooperatives are an earliest emerged and integral player of social economy. Cooperatives and social enterprises share some common features which include an approach integrating social and economic activities to meet common needs, an initiative launched by a group of citizens, a participatory nature of organizing and running an organization, which involves the persons affected by the activity, and a high degree of autonomy (McPherson, 1996; Defourny, 2001). The types of cooperatives are of variety and the specific aims and characteristics of cooperatives vary across regions or countries. In relation with social enterprises, social cooperative is a newly emerged type of cooperative and is regarded as a cooperative form of social enterprise. Traditional cooperatives tends to pursue members' individual benefits by organizing members' common needs and collective actions rather than capital gains while social cooperatives emphasize the collective nature of the economic activities to be organized, for example co-production and governance structure participated by multi-stake holders, to effectively achieve the public or collective interests of a group of people which may be disadvantaged.

The essence of cooperative sub-sector resides in the voluntary creation and management of a firm by a group of ordinary people having common needs and aspiration. It is well known that the experience of people's participation in organizing and managing cooperatives positively influences the quality of civil society, enhancing social trust (Putnam, 1993) and boosting citizens' capability to organize "shared destiny" (Defourny and Develtere, 1999). In most western European countries, cooperatives of variety, from consumers' cooperatives to small entrepreneurs' or workers' cooperatives, have been created and managed by ordinary people for the past one and half century. However, the experience of modern cooperative movement in Korea has been severe and the cooperatives are perverted by the ruling state for 80 years, from its colonial period to its development state age.<sup>1</sup>

The cooperatives in Korea took a path of top-down approach from its beginning stage although bottom-up cooperative movement attempted. In fact, Korean people have not been allowed to freely

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<sup>1</sup> See Jang(2013) for more details of the history of Korean cooperatives.

establish their own cooperatives until the FAC took effective in December 2012. There have been strict regulations on the establishment and management of cooperatives in terms of the boundary of their activities, conditions for obtaining permission from government, and the governance structure. Eight special cooperative laws have regulated cooperatives, including agricultural cooperatives (1957), forestry cooperatives (1961), fisheries cooperatives (1961), cooperatives of tobacco producers (1962), small and medium enterprises cooperatives (1963), credit unions (1972), community credit cooperatives (1982), and consumer cooperatives (1999). The first four types of cooperatives were established under the rule of Japanese imperialism from 1910 to 1945 whereas the last four types were founded after liberation of 1945.

Similar to what imperialistic states behaved in their colony regarding cooperatives (Birchall, 1997), Japanese authority oppressed and finally ruled out Korean cooperative movement voluntarily initiated by civil activists and religion leaders. The aspect of government-control in cooperatives was intensified during the dictatorship since cooperatives were employed by the government to mobilize resources for developing economy. The government established cooperative laws in a sector base and the laws specified that each cooperative sector was supposed to be *de facto* administrated and monitored by different ministries so that it could well serve to industry policies initiated by the ministries.

It was the 1990s that a new wave of cooperative movement emerged in organic food, child care, medical, and college sector. In 1994, Korea achieved GDP per capita of ten thousand dollars and there had been an increasing number of people that were aware of natural environment, health, and community, which has been significantly deteriorated during the period of rapid economic growth. As consumer cooperatives of variety were voluntarily expanded, Consumer Cooperatives Act to legally support the activities was passed in 1999. Since then consumer cooperative movement has significantly developed in both membership and business transaction.<sup>2</sup> In addition, workers' cooperatives and social cooperatives alike emerged in 1990s, but there was no legal support basis for these types of cooperatives. In fact, there was little freedom to establish a cooperative legal entity in economic, social, and cultural areas which were not specified in the above-mentioned eight special laws.

To resolve this problem, several organizations in the newly emerging cooperative movement launched a project for enacting a legislation which could cover various types of cooperatives. Thanks to political leaders' increasing expectation on the role of cooperatives for alleviating the problem of

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<sup>2</sup> For example, the number of members of consumer cooperatives for transacting organic food has increased from 30,000 in 1998 into 450,000 in 2010.

economic downturn and social welfare, in December 29th 2011 Framework Act on Cooperatives (FAC hereafter) was passed by the Korean National Assembly and went into effect on December 1st 2012. Therefore, Korea has gotten to transit from a country having a special law system on cooperatives, such as Japan, into a country having a mixed system of general law and special laws for cooperatives, including France. As for social enterprise, the legal basis for social cooperatives followed the legislation for social enterprise.

Table 3 illustrates the main features of FAC. FAC states its purpose of legislation as follows: “to facilitate independent, self-supportive, and autonomous activities of cooperatives and so contribute to social integration and balanced development of the national economy by providing for basic matters regarding the establishment and operation of cooperatives” (art. 1). FAC distinguishes a traditional cooperative from “social cooperative”. A cooperative is required to have at least five members by FAC (art. 15).<sup>3</sup> Although FAC does not explicitly enumerate, it implies that people can establish producer cooperatives, consumer cooperatives, and labor or worker cooperatives. But FAC does not allow for a cooperative to operate financial or insurance business activities.

<Table 3> Main Features of Framework Act on Cooperatives

Legal entity	It regards a traditional cooperative as a legal entity while it regards social cooperative as a non-profit legal entity.
Traditional cooperatives	It allows five people to get together to establish a cooperative and three cooperatives shall establish a federation. Traditional cooperatives are allowed to conduct any activities except finance and insurance The registration of a traditional cooperative is based on principle of report. There are no specifications on government support for traditional cooperatives.
Social cooperatives	FAC define social cooperative as a cooperative that carries out business activities related to the enhancement of welfare of local residents or provides social services

<sup>3</sup> In some special laws a higher number is required. For example, 1,000 members are required for an agricultural cooperative to be established on the basis of territory (Agricultural Cooperative Act art. 15 and its Presidential decree art. 2) while 100 members are required for a credit union or community credit union to be established (Credit Unions Act art. 11(3)). The Consumer Cooperative Act stipulates that the minimum number of members for founding a consumer cooperative is 300 (Consumer Cooperative Act art. 21 and its Presidential decree art. 4).



	<p>or jobs to disadvantaged people.</p> <p>The registration of a social cooperative is made by principle of permission.</p> <p>Social cooperatives are not allowed to distribute surplus or residual property when dissolved, to their members.</p>
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Source: the author's own work.

Instead, FAC encourages people to create “social cooperative”. The act stipulates that social cooperatives shall be engaged in one or more business activities as its main business among the following business activities: i) programs for contributing to the renewal of local communities, the invigoration of the local economy, the enhancement of rights, interests, and welfare of local residents, and the resolution of other problems that local communities face; ii) programs for providing disadvantaged people with social services or jobs in the aspects of welfare, medical services, or environment; iii) projects entrusted by the central government or a local government; and iv) other projects for contributing the enhancement of public interest (art. 93).<sup>4</sup>

FAC distinguishes a cooperative from a social cooperative with regard to the distribution of net income, imposing heavier regulations on a social cooperative. A social cooperative is not allowed to distribute surplus to the members (art. 97-98). The prohibition of surplus distribution to the members which applies to social cooperatives originates from the characteristics of non-profit organizations. Along this line, FAC regulates the disposal of residual property of a social cooperative: if there is residual property left over after paying debts when a social cooperative is dissolved, the ownership of such property shall be vested to the higher federation of social cooperatives; a social cooperative for similar purposes; a non-profit corporation or public-service corporation; or the National Treasury (art. 104).

Social cooperative is a cooperative form of social enterprise which is featured with general interest mission, non-state character, multi-stakeholder membership structure, substantial representation of worker members, non or limited distribution of surplus (CICOPA, 2009). Social cooperatives have been developed in Italy, Portugal, France, and Quebec (Margado, 2004; Travaglini, et.al, 2009). The social cooperatives stipulated in FAC are aligned with the statement of CICOPA on social cooperatives. As FAC includes social cooperatives, the Presidential decree of SEPA was immediately amended into containing social cooperatives as a legal form of social enterprises. Therefore, South Korea has become similar to Italy with respect to legal structure of social enterprise.

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<sup>4</sup> The delineation for the activities of social cooperatives is similar to that in SEPA.

Table 4 compares the main features of SEPA with those of FAC. The two acts differ in terms of the legal nature of social enterprise. SEPA grants a certificate of social enterprise while FAC grants a legal entity of social cooperative by permission. The legal entity of certified social enterprise may be a for-profit or not-for-profit firm while social cooperative must be a not-for-profit firm. A major item of government support to a certified social enterprise is subsidy to wage for employment of disadvantaged people for maxim 5 years while FAC specifies some grounds for government support for social cooperatives but there are no specific provisions on the support. Therefore, if a social cooperative would like to gain government subsidy as a form of social enterprise, the social cooperative should obtain a certificate based on SEPA. In other words, a new form of social enterprise which relies less on government subsidy has emerged thanks to FAC.

<Table 4> Comparison between the Main Features of SEPA and FAC

	SEPA	FAC (social cooperative)
The legal nature of social enterprise	Granting a certificate	Granting a legal entity by permission
The nature of the legal entity	For-profit or not-for-profit	Not-for-profit
Types of social enterprise	WISE alike Provision of social services Mix of WISE alike and provision of social services Contribution to community development	Similar to specifications of SEPA but permission criteria are more higher than certification criteria specified in SEPA
Distribution of surplus to owners or members	The distribution of surplus to owners in a for-profit firm is allowed within one third of total surplus.	It is not allowed at all.
Government support	A major item of government support is subsidy to wage for employment of disadvantaged people for maxim 5 years	The act specifies some grounds for government support for social cooperatives.

Source: the author's own work.

Korean people's response to the enactment of FAC has turned out to be exploding. As table 5 shows, the growth of establishments of cooperatives based on FAC has been considerably increasing during a short period of time. 1,210 cooperatives have been created during the first 6 months after FAC came into force as of 1st of December 2012. 1,173 cooperatives are traditional ones such as

consumer cooperatives, small entrepreneurs' cooperatives, and workers' cooperatives while 37 cooperatives are social cooperatives. 26,040 people have participated in the creation of cooperatives and they have invested 25 billion Korean won in their cooperatives. The planned activities of newly established cooperatives include commerce, agriculture, manufacture, food service, lodging, recycling, solar power energy, education, culture, social services, consulting, etc.

<Table 5> Accumulated Number of Cooperatives Newly Established Based on FAC

	Jan. 2013	Feb. 2013	Mar. 2013	Apr. 2013	May 2013
Traditional co-ops	221	437	681	922	1,173
Social co-ops	4	7	14	24	37
Total	225	444	695	946	1,210

Source: Ministry of Strategy and Finance in South Korea

The impacts of the enactment of FAC on the future development of social economy in South Korea are three folds. First, the implementation of FAC would help significantly enlarge the relative size of cooperative sub-sector in the Korean social economy sector. It is predicted that the trend of cooperatives creation would be steady at least for a while and the number of newly established cooperatives will be over five thousands within the coming three years. Although the size of current cooperative sub-sector which includes agricultural cooperatives and financial cooperatives is relatively large<sup>5</sup>, they have been criticized due to the lack of social mission and members' participatory and democratic control of their organizations. However, the newly established cooperatives of variety are distinguished from the old ones with respect to the mission, members' control and voluntariness of members. The new cooperatives established based on FAC will considerably expand the current magnitude of the cooperative sub-sector that meets the principles of social economy, which includes consumer cooperatives for the transactions of organic food and fair trade products, medical services and childcare services. Therefore, the newly emerged cooperative sub-sector might play a leading role in the social economy sector in South Korea.

Second, the acquiring of people's freedom to establish their own cooperatives would significantly

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<sup>5</sup> The agricultural cooperatives and two financial cooperatives employed over 100,000 workers as of the end of 2010 (Jang, et al., 2011).

help boost the capacity of Korean civil society. The surge of new cooperatives in South Korea indicates that ordinary people in recent years have been unsatisfied with the working mechanism and results of the capitalist market economy as described earlier and have been looking for alternative ways to resolve their common socio-economic difficulties. The enactment of FAC has provided people with freedom to organize various cooperatives through which they could meet their common needs. Looking at the surge of new cooperatives, it might be said that the old cooperative legislation system had suppressed people's social and collective entrepreneurship and capabilities to cooperate each other.

People who participate in the new cooperatives interact with other people who feel common needs, and discuss about innovative ways to meet the common needs. An increasing number of people's self-help and self-responsibility actions elicit civil organizations and government to support their actions. An increasing number of organizations have begun to provide education and consulting activities to assist the cooperative movement expanded after FAC has been legislated. In this regard, formal institutional environments such as laws significantly influence the concrete landscape of social economy sector by providing incentives and constraints (North, 1991).

It has been said that the low degree of civil society power is ascribed to the initiative of the state in the emerging social economy sector in South Korea (Defourny and Kim 2011). However, it is expected that the implementation of FAC would help facilitate citizens' willingness and know-hows to cooperate with other citizens, which then contribute to lessening the weakness of Korean social economy sector. The fact that a large number of new cooperatives have been founded at the beginning stage of FAC implementation although FAC does not specify any subsidy to general types of cooperatives would support the expectation. In this manner, the newly established cooperatives will contribute to the quality of civil society as cooperative sector have done in western European countries for the past one and half centuries.

Finally, the implementation of FAC will impact on the current and prospect social enterprises in South Korea. The current or prospect actors in either social enterprises certified based on SEPA or other social enterprises would respond to the introduction of a legal basis for social cooperative. Specifically, the leaders of self-sufficiency enterprises and non-profit organizations in welfare service sector could take advantages of cooperative type of social enterprise to enhance the initiative of employees and democracy of their organization.

For example, the results of a survey on the presidents of 546 social enterprises conducted in 2012 indicate that 19% of the presidents answered to the survey were willing to convert their current legal form such as investor-owned firm into cooperative (Cheon, et al., 2012). It turns out that most of the social enterprises whose presidents preferred cooperative were self-sufficiency enterprises and

trading non-profit organizations. They believe that cooperative is a more appropriate type of the firm to fulfill the purpose of their social enterprise with respect to stake-holders' participatory management as the owners of their organization.

#### 4. The Emergence of Partnerships between Local Governments and Civil Organizations for the Development of Social Economy Sector

Local government influences the landscape of social economy in a country since the actors of social economy primarily focus on the social or economic issues in the geographic region where their organization is located. The attitude of local government to social economy is very important for the emergence and development of social economy in a specific region because local government possess self-governance mechanism by the entire people in the municipality as well as financial and human resources. If policy makers including head of a local government recognize the advantages of social economy relative to its limitations and regard social economy actors as important partners to deal with the mounting unemployment problem, to efficiently meet the growing demand for social welfare services, and to effectively serve rehabilitation of local communities, the social economy sector in the region is more likely to flourish.

The activities of local government to support social economy in South Korea have been growing as new heads of local governments were chosen by the local election in April 2010 when social and economic issues were intensified as described earlier. In addition, a special election for mayor of Seoul metropolitan city, which was carried out in October 2011, made a big change in the attitude of local government to social economy. The new mayor of Seoul metropolitan city, Mr. Park, has been renowned as a representative civil activist possessing deep understanding of social economy. He has recognized Seoul citizens' growing demand for social economy, and that the active role of civil organizations is crucial for the development of social economy.

Mr. Park has introduced a new administrative office which is called as department of social economy which deals with policies for the development of cooperatives, social enterprises and community businesses. He has succeeded in persuading the representatives of Seoul metropolitan city assembly to pass municipal ordinances to support social economy, which include the establishment of partnerships between Seoul city government and civil organizations, Korean social investment, socially responsible public procurement, and Seoul center for supporting social economy. The center was established by the local government but the operation was trusted to a civil organization in April 2013. The Korean social investment aims to fund social economy organizations and is composed of funding from the city government and private sector. The Seoul mayor has effectively utilized enormous resources possessed by the city government to inform citizens of the

implementation of FAC and the advantages of community business and social enterprise. He also made partnerships with civil organizations to provide education and training services to citizens who have interest in creation of cooperatives, social enterprises, or community businesses.

In fact, the new policy activities that have been initiated by the new mayor of Seoul were determined after numerous discussions with civil organizations, including Seoul social enterprise network, Seoul cooperatives association and other supporting institutions, had been made. The activities that Seoul metropolitan city government has begun to support social economy has gained positive responses from other local governments as well as civil society in Seoul. The new governor of Chung-cheong-nam province has initiated policy activities similar to those of Seoul city government. Several heads of local governments in the country have echoed to the activities initiated by the new mayor of Seoul, by introducing a set of policies, including establishment of partnerships with civil organizations in their geographic area.

In this manner, an increasing number of local governments have begun to admit the effectiveness of partnerships between local government and civil organizations. Over 30 heads of primary local governments got together to launch a local government council for social and solidarity economy in May 2013. They made agreements among the heads that social and solidarity economy play an integral role for community rehabilitation, social integration, and social innovation and therefore, they will cooperate each other by sharing the experience of social economy development. They opened the first conference to obtain from mass intelligence about how local government effectively introduces a socially responsible public procurement program.

Civil society in South Korea has welcomed the new approach adopted by the increasing number of local governments, which is different from the long-lasting dominant approach to local development which features setting visions for municipality by local government and top-down ways and mobilizing external resources to accomplish the visions. They believe that the sustainability of local development relies largely on the capacity of civil society in the municipality to identify the common social economic issues, discover innovative ways to resolve the issues, and mobilize resources to accomplish the proposed ideas. The heads of local development have been recognizing the weak capacity of civil society relative to the strong power of government in Korea, which hinders the sustainable development of social economy. Instead of direct intervention measures, they emphasize the ecosystem for the development of social economy, including an education and training system, social finance, social markets, and a network system of social economy players, which they believe help enhance the capacity of civil society in the municipality.

Although it is too early to evaluate the new orientation emerged in South Korea in very recent years, it is observed that the increasing number of network organizations of social economy actors have

emerged in municipalities and their activities have been expanding. The network organizations are composed of the cooperatives, social enterprises, self-sufficiency enterprises, and other civil organizations which have served the development of municipality. They have attempted to identify, investigate, and discuss about the common pressing issues that might be tackled effectively by social economic organizations, publically seek innovative ways to deal with the issues, and launch new initiatives to deal with proposed issues. In this fashion, the network organizations stimulates individual organizations or citizens to think over their common issues and effective ways to resolve by joint actions, which contributes to solidarity and social trust in the municipality.

## 5. Concluding remarks

This paper has attempted to identify that the social economy sector in South Korea has been expanding in recent years. Specifically, the paper has explored the dynamic relationship between state and civil society in the development of social economy by looking at the legal change of cooperatives and the shifting role of local governments. It has claimed that the enactment of FAC and the increasing partnerships between local governments and civil organizations have helped moderate the concerns that the social economy sector in South Korea might be degenerated due to strong initiative of the state power relative to the weak civil society. It has also proposed that the capacity of civil society will be enlarged by the escalating participation of citizens in the activities of social economy organizations.

The development of cooperatives in South Korea which has a strong *dirigiste* tradition took a path of top-down approach from its beginning while bottom-up cooperative movement was suppressed by either Japanese imperialistic government or ensuing development dictatorship. However, the passage of FAC, which was accomplished by joint efforts between the expanding voluntary social economy actors and policy makers, will contribute to the change in the path of cooperative development in South Korea into a more bottom-up path. The surge of new establishment of various cooperatives initiated by ordinary citizens and the emergence of supporting civil organizations may support the prediction. However, whether the bottom-up path will dominate in the cooperative sub-sector or not is not clear yet. The coexistence of old and new legal bases for cooperatives will remain for a while.

The move of government role for development of social economy from central to local government has been accelerated by the political change in local governments from the conservative party to liberal party. The active role of local governments under the new leaderships has resulting in establishing the partnerships between local governments and civil organizations regarding the setting up and implementation of policies for the development of social economy in the municipality. The development of these partnerships will contribute to the capacity of local civil society by providing civil

organizations with opportunities to discover and resolve their common social economic issues and by facilitating cooperation among the organizations. However, whether the partnerships continue is not clear yet since the sustainability of the partnerships is influenced largely by the political election.

Based on these observations and analysis, it may be stated that the path of social economy development in South Korea has been in recent years changed from dominance in state power into a mixed approach between top-down and bottom-up ones. The future landscape of social economy in South Korea will depend largely on whether the civil organizations and social economy actors succeed in gaining reputation by the accumulation of innovative cases to tackle with the multifaceted social economic issues.

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