

GSEF Social Economy Policy Guidebook
– Seoul Metropolitan Government

Status of Social Economy Development in Seoul

A Case Study of Seoul

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Seoul's Social Economy Policy(2011-2015): Achievements and Challenges/Seoul Social Economy Center

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Seoul's Social Economy Policy(2011-2015): Achievements and Challenges



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Background

Since the election of Mayor Park Won-soon in late 2011, the Seoul Metropolitan Government (SMG) and the social economy organizations in the city have together built a multi-sector partnership, in order to do a better job of allocating public resources and to increase the amount of social capital available for solving various problems. This report is a summary of the analysis on the SMG's social economy policy and its outcomes over the last five years.

Toward the end of 2011, the SMG and civil society participants agreed that the social economy was something more than just an additional source of employment. They agreed that the social economy of Seoul was in need of an ecosystem that enhances the happiness of Seoul's citizens and contributes to economic democratization. The parties thus reached agreement on developing the four major pillars of such an ecosystem: capacity building, social capital, the market, and the financial sustainability of social economy organizations.

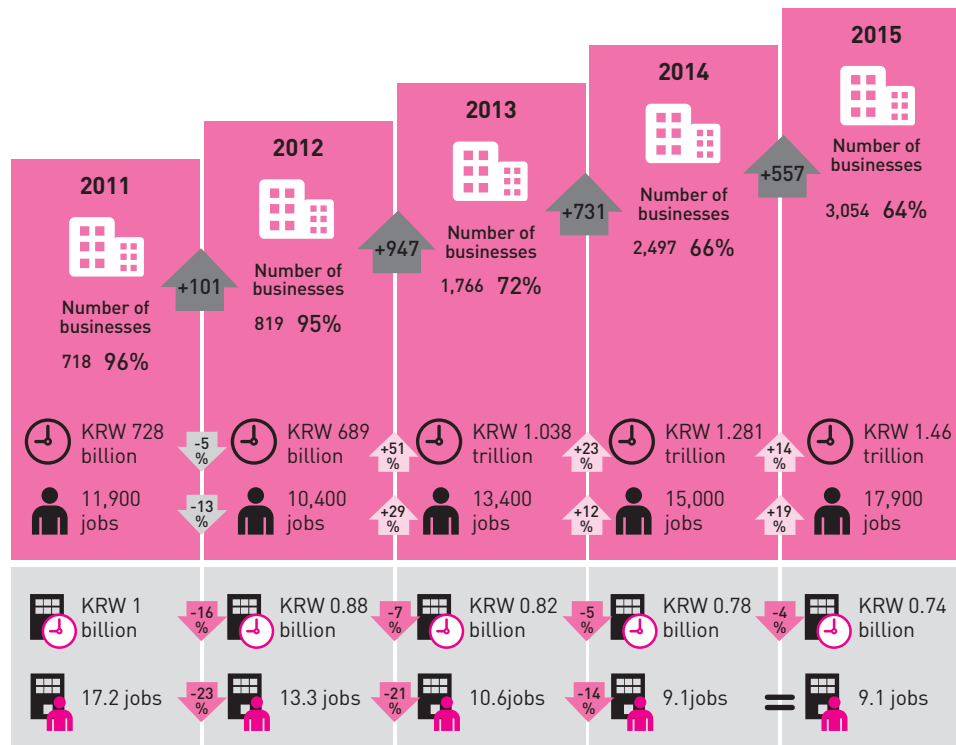
Seoul's social economy policy: achievements over the past five years

1) Growth of Social Economy in Seoul

The number of social economy organizations in Seoul increased fourfold between 2011 and 2015, from 718 to 3,054.¹⁾ Of these, 78% are newly-established organizations. In late 2012, the Korean National Assembly enacted the Framework Act on Cooperatives (FAC), which on its own has spurred the establishment of 2,200 cooperatives in Seoul. Starting cooperatives has been popular particularly among retirees in the Gangnam districts as well as other diverse groups of entrepreneurs.

1) A few different departments are keeping track of and surveying the number of social economy organizations in Seoul, with slightly different criteria. Thus it is possible that these statistics may have some duplication.

[Figure 1.] Growth of Social Economy in Seoul, 2011-2015



However, only 64% (1,960) of these organizations remain active today. The survival rates of social enterprises and self-sufficiency enterprises are relatively high, at 90.0%²⁾ and 91.0%,³⁾ respectively. However, due to the relatively short history of public support and the shortages of networks, the survival rate of community businesses barely reaches 69%.⁴⁾ For new cooperatives, the ratio drops even further, ranging between 53.9%⁵⁾ and 44.4%.⁶⁾ Therefore, rather than

2) MOEL and KLI, Assessment of the Employment Effects of Social Enterprises and Cooperatives, 2015 (using the ratio of businesses that have shut down to the number of businesses established).

3) Seoul Province Self-Sufficiency Center, Current Status of Self-Rehabilitation Enterprises, 2015.

4) MOPAS and SSEC, Results of the Complete Enumeration Survey on Community Enterprises, 2016.

providing support for new enterprises, policymakers should focus on fostering an environment in which existing operations (including those which have temporarily or permanently gone out of business) can function more effectively.

2) Increasing value generated by social economy organizations

As of the end of 2015, the social economy organizations in Seoul together generated an aggregate annual revenue of KRW 1.46 trillion (KRW 745 million per organization), with 17,900 new jobs (9.1 jobs per organization); this is almost double the figures observed in 2011.

As of the end of 2014, the social economy in Seoul accounted for 0.4 percent of both the gross regional domestic product (GRDP) and employment in the city.

As for the quality of jobs these organizations have created, the average pay from these organizations amounts to 65 percent of the average urban worker's wage (KRW 2.64 million per month). However, the amount of income for vulnerable groups has increased by 120 percent, in comparison to the amount of transfer income and the amount of income from for-profit businesses in the same industries. The ratio of employees with social insurance coverage is also 30% higher in social economy organizations than in other businesses.

5) MSF and KIHASA, Second Survey on the Current Status of Cooperatives, 2016.

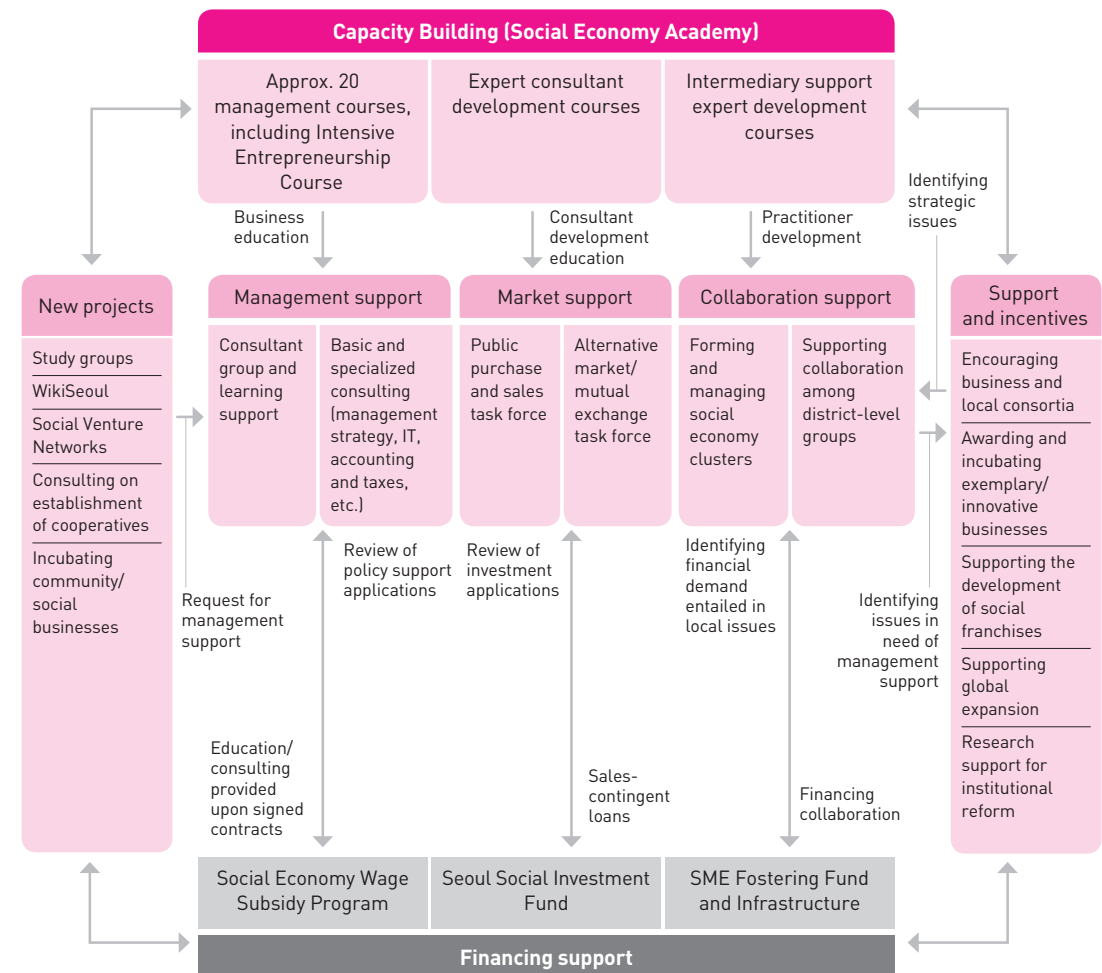
6) Seoul Council of Local Cooperatives, Cooperative Project Performance Report, 2016.

Fostering an ecosystem for greater self-sufficiency

1) Phase-by-phase policy support programs

Much of the SMG's policy support programs for the social economy concentrated on the entrepreneurial phase until 2011. The SMG has since revisited this policy, experimenting with a new policy program that provides support tailored to each phase of growth in these social economy organizations.

Figure 2. Phase-by-Phase Support Programs for Social Economy Organizations in Seoul



The management consulting program, for instance, provides business consulting, accounting services, legal aid and IT support for over 300 organizations each year, and has contributed to an increase of 29% in the revenue of social economies, and an increase of 49% in their employment.

In an effort to foster a capital market more favorable to the social economy, the SMG invested KRW 50 billion to set up the Seoul Social Investment Fund, through which it has provided KRW 33 billion over the last three years. The total revenue of and number of jobs at social economy organizations has increased by 129% and 157% respectively, over those three years.

2) Promoting collaboration and awarding exemplary organizations

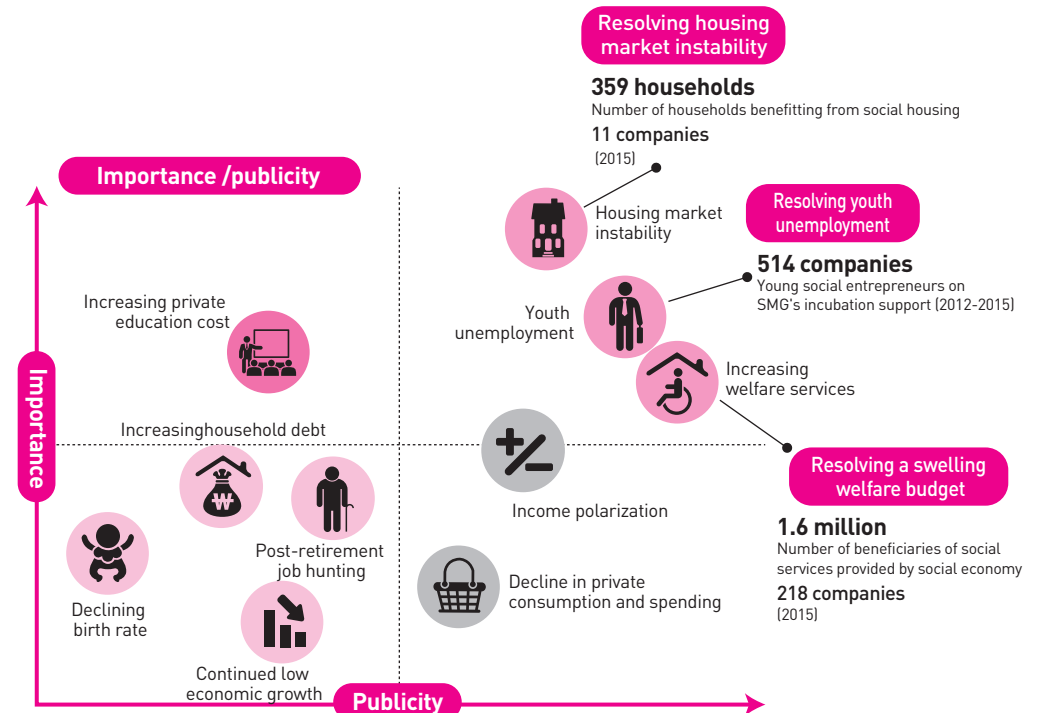
The SMG has continually encouraged and supported the establishment of new organizations in areas of business with direct implications on the daily life of Seoul's citizens. In this process, the SMG has supported councils of interested parties, fostered collaboration projects, and awarded and subsidized innovative organizations.

Of the core issues⁷⁾ facing the daily life and economy of Seoul's citizens identified by the Seoul Institute in 2015, housing, youth unemployment and social welfare services are the three areas in which social economy organizations have been most active. Organizations specializing in housing issues began to provide public housing construction management services for 359 households even before organizing the Social Housing Association. Social economy organizations specializing in social services now comprise over 10% of the entire social economy in the city and service over one million clients each year.

7) Seoul Institute, Additional Survey on Seoul Consumers' Economic Outlook for Q4, 2014, 2014.

Figure 3. How the Social Economy Helps to Solve Core Daily Issues faced by Seoul Citizens in 2015

How the social economy helps to solve issues that Seoul citizens face every day
Core economic issues identified by Seoul's citizens (Seoul Institute, December 2014)



3) Expanding the market for products from the social economy

Acknowledging the need to enhance the social responsibility of the public procurement market in Seoul, amounting to some KRW 7 trillion in value, the Seoul Metropolitan Council enacted a number of municipal ordinances, including the Municipal Ordinance on Public Purchases and Marketing Support for the Products of Social Economy Organizations (March 2014), the Framework Ordinance on the Social

Economy (May 2014), and the Municipal Ordinance on Increasing the Social Value of Public Procurement by Seoul (May 2014). As a result, the public procurement market for the social economy in Seoul grew by KRW 80 billion in 2015.

Our analysis of the sales growth rates of 20 social economy organizations in Seoul that voluntarily disclosed their management information, and of the ratio of public purchases in their sales,⁸⁾ revealed that the aggregate sales of these organizations grew by 25% from 2014 to 2015. Interestingly, the sales from public purchases took a 5% drop, while the sales from the general market grew by 7% over the same period. These findings suggest that the public market in Seoul is successfully functioning as a test market and helping social economy organizations pioneer their respective markets better.

8 SSEC Public Purchase and Business Group, 2016.

Enhancing the autonomy and capabilities of the social economy

1) Capacity Building

In 2013, the SMG created the Social Economy Taskforce on Capacity Building, and put it in charge of developing a Social Economy Capacity Building Roadmap. This roadmap presented different capability-building models for different types of social economy participants, including social entrepreneurs, working-level civil servants, specialists, administrators, and intermediary support agency activists. The SMG provided 86 courses of action learning over the following three years, producing a total of 4,048 graduates.

The SMG also made various efforts to facilitate entry of the youth into the social economy. These included an incubation program supporting 514 youth entrepreneurship teams in the city, and organizing public contests on ideas for improving the social economy, WikiSeoul, which led to the implementation of 166 policy support programs over four years.

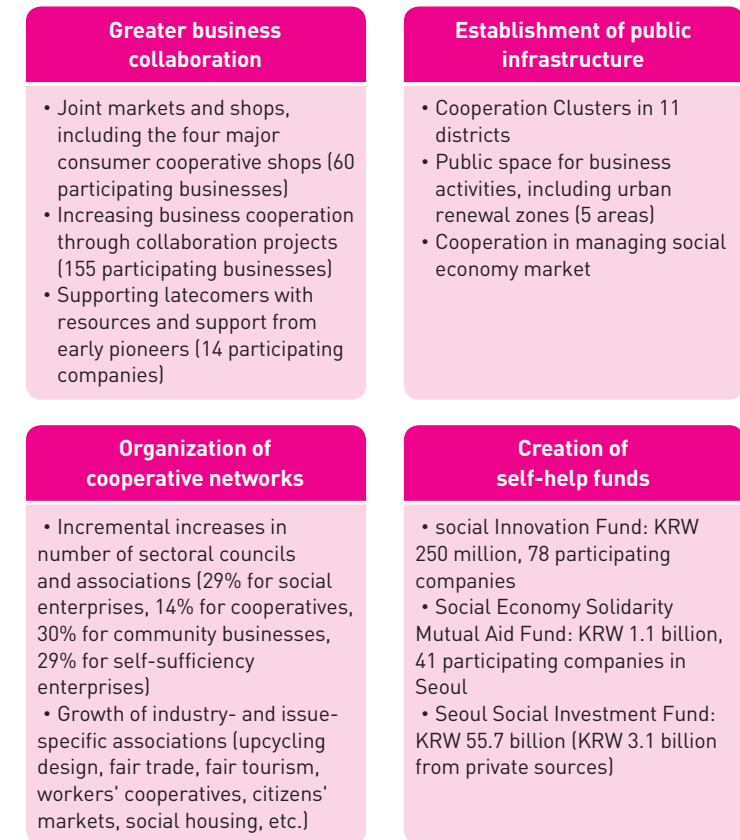
As of 2015, 792,000 citizens in Seoul were directly investing in the city's social economy, having made a total investment of KRW 165 billion. There were also 8,900 volunteers who were actively involved in working with social economy organizations to solve problems within

communities. In particular, the consumer cooperatives in Seoul have been growing an average of 6% per year since 2011, encompassing 410,000 households (11% of the total of 3.63 million households in Seoul) by the end of 2015.

2) Establishing a system for cooperative economy

The SMG's efforts in fostering a platform for a thriving cooperative and social economy in Seoul have been mainly centered on developing the four main pillars of the Mondragon Corporation model. There are now approximately 920 organizations participating in Seoul's cooperation networks (456 business associations, 120 industry associations, 228 collaborative projects, and 120 self-help funds). The network encompasses 20 public areas of cooperation and a total of KRW 4.45 billion in self-help funds.

Figure 4) Results of Developing Social Economy Infrastructure in Seoul



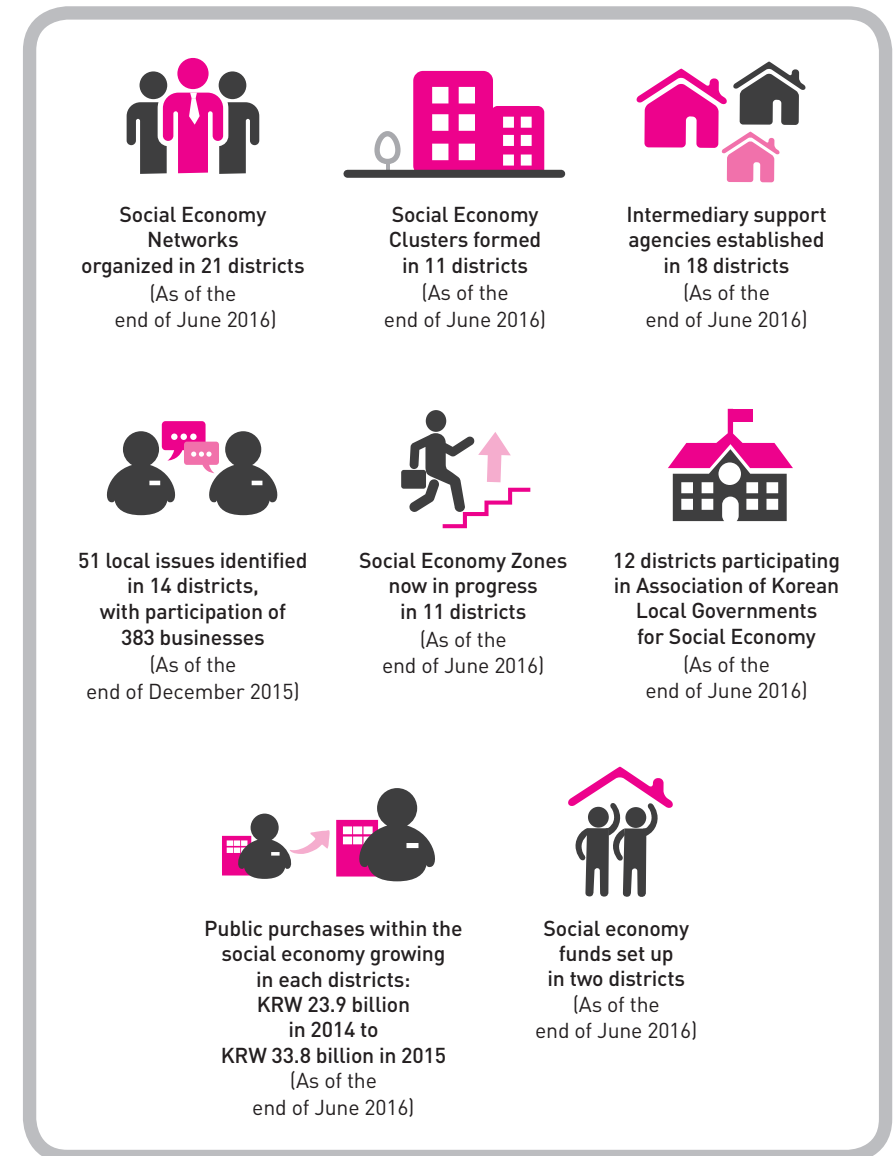
SMG's strategy for cooperative economy infrastructure



Developing platforms for solving local problems

The SMG and the offices of 18 districts in Seoul have set up intermediary support agencies to facilitate multi-sector partnership on the social economy. These agencies are products of the Local Social Economic Ecosystem Development Project, which the SMG has been implementing since 2012 to uncover district-specific issues, make better usage of available local resources, and narrow down social economy gaps between the districts. The project led to the creation of social economy councils in 21 districts, who together have uncovered 51 local social economy issues.

Figure 5. How the Social Economy Has Changed Municipal Districts in Seoul



Leading the creation of the Global Social Economy Forum (GSEF)

In 2013, the SMG and the SSEC proposed the creation of an international forum of exchange between major local governments and nongovernmental organizations worldwide on issues of the social economy and policymaking. The Global Social Economy Forum (GSEF) was first held at Seoul City Hall in November 2013. The participants confirmed the essential importance of the social economy in tackling the various social and economic issues facing the world, and adopted what is known as the Seoul Declaration. GSEF 2014 and the first meeting were held the next year, again in Seoul, to announce the inauguration of the GSEF, with local governments and nongovernmental organizations from around the world as its founding members. The second GSEF meeting (GSEF 2016) will be held in Montreal in September 2016.

Improving the efficiency of fiscal support

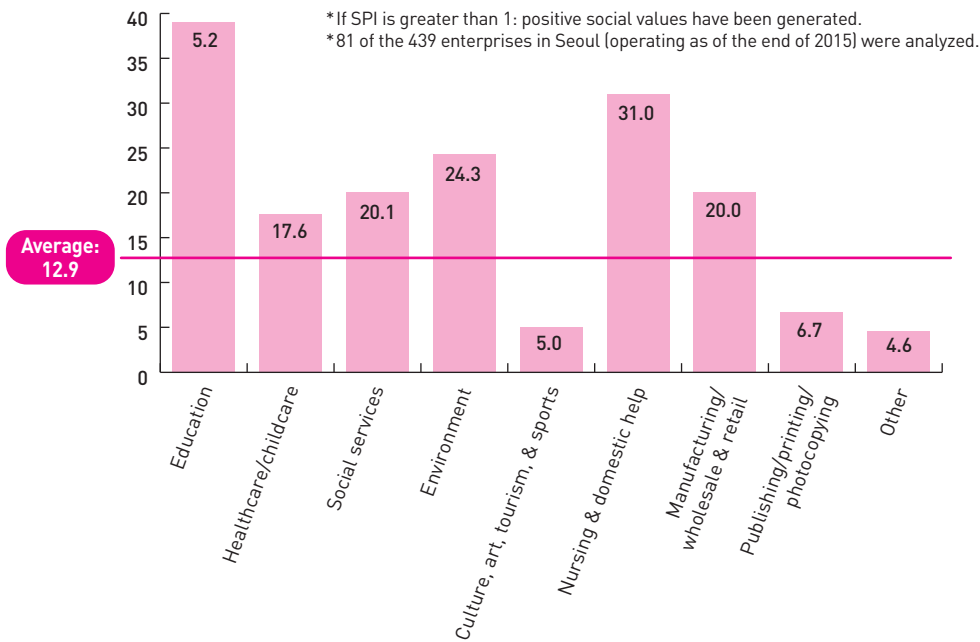
Until 2011, over 90% of the SMG's social economy budget went toward providing wage and business subsidies for individual social enterprises. However, based on discussions held by the Seoul Social Economy Policy Council, the SMG has increased the portion of indirect funds (to be spent on fostering a social economy ecosystem throughout Seoul) to 52%, (KRW 131.9 billion in total), since 2012. Such fiscal support has generated KRW 3.139 trillion in cumulative revenue and 15,800 jobs in cumulative total by the end of 2015, with an ROI (return on investment) rate of 22.78%.

Note that the number of social economy organizations in Seoul has multiplied over fourfold, while the city's social economy budget has been taking a 10% cut every year over the last five years. In other words, the SMG has steered the remarkable growth of social economy organizations and developed its infrastructure with increasingly-diminishing fiscal resources. The efficiency of fiscal support for the social economy in Seoul has thus improved greatly over the last several years.

A recent study by the Seoul Institute on the effects of the SMG's social economy policy⁹⁾ reveals that the economic and social returns

on social economy organizations have increased significantly since the SMG began to develop an economic ecosystem rather than directly subsidizing individual businesses. An analysis of the organizations' social performance index (SPI)¹⁰ shows that the SPI of Seoul-style social enterprises had grown by 2.8 times when surveyed in 2012. In the meantime, social enterprises-in-the-making receiving support from the SMG generated 12.9 times greater social value in 2016 than the fiscal support they received. Increasing policy attention to ecosystems and infrastructure has significantly improved outcomes of the social economy in Seoul.

Figure 6. Social Values Generated by Social Enterprises in Seoul



9 Cho, Dalho, et al., Performance and Policy Issues of Seoul-Style Social Enterprises, Seoul Institute, 2012; Cho, Dalho et al., Evaluation of the Performance of Social Enterprises in Seoul, Seoul Institute, 2016.

10 Obtained by comparing the number of jobs and the value of social services generated against the amount of fiscal support provided.

Challenges

Notwithstanding these achievements of the past five years, Seoul is still far from having realized “an endogenous and democratic mechanism of economic development” with its social economy experiment.

There are a number of policy issues that need to be addressed.

1) Fostering business consortia and mutual aid associations among social economy organizations

Policy support will be needed to encourage social economy organizations of the same or different industries to gather together and form business consortia and mutual aid associations. Such associations will be necessary for these organizations to share resources and business projects and make use of the internal resources and business capabilities of older and well-established enterprises. Seoul can facilitate this process by enacting and amending basic municipal legislation, allowing these organizations to set up and operate mutual aid arrangements providing deposit services, loans, and insurance. The Seoul Social Investment Fund can be used to match the investments

and contributions made by these organizations.

2) Making the transition from organization-specific support to mission-specific support

The Korean government has already developed a number of programs to support different types of social economy organizations, such as self-sufficiency enterprises, social enterprises, community businesses, and cooperatives. These programs have contributed to the development of the social economy in Korea, but many issues remain to be addressed. Considering the differences in the relative priority of issues and missions shaping the social economy, in methods of financing, in the willingness or ability of target consumer groups to pay, in the state of social networks, and in the state of target markets, it is crucial for policymakers to re-design the support system to cater to specific issues and missions rather than specific types of organizations. The SMG can set an example in this regard by breaking down the departmental walls and suggesting a new and more integrated design for support programs, which clarifies the routes by which policy support is transferred from one type of organization to another.

3) Entrusting public assets to the care of communities against gentrification

The SSEPC had a consensus in 2012 on spending up to 30% of the SMG's annual social economy budget on developing and creating public assets. Yet only 11 districts have so far provided the public land necessary for creating collaboration zones. In the meantime, the problem of gentrification has taken a turn for the worse in Seoul. Policymakers should take the examples of Locality in the UK and other innovative initiatives, and find more effective measures to manage idle

public assets for the social economy, including real-cost disposal and management on consignment.

We should remember that the SMG can solve these remaining policy issues only by mobilizing the consensus and resources of a civil society and by garnering support from the Seoul Metropolitan Council and the National Assembly.

