

A Study on the Promotion of the Third Sector in Korea

The Third Sector in Korea: Finding Balance
between Autonomy & Public Support

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Introduction

1. Why the Third Sector?

The Third Sector may be generically understood as the civil society in a broader sense, in contrast to the First (public) and Second (market) Sectors. It is sometimes interpreted to indicate the Nonprofit Sector or the Social Economy depending on the historical tradition of the country. Recently, the boundary of the sectors is becoming vague with nonprofit nongovernmental organizations actively participating in providing various social services, leading to a situation where the relationship with the First and Second Sectors must be restructured. Some use the term 'the Fourth Sector' to express this situation, in an attempt to come up with another independent sector by linking the participation of nonprofit nongovernmental organizations in profitable projects to the social contributions of enterprises. The concept of 'the Fourth Sector' is mentioned in this paper for the convenience of explaining its focus on the Third Sector's provision of social services, participation in revenue-making businesses and creation of jobs, and not to suggest the acceptance of the concept.

This study is not limited to covering the effectiveness and

efficiency of the Third Sector in providing social services, conducting revenue-making businesses and creating jobs. The main purpose of the study is to seek ways to soundly implement the three basic elements of the Third Sector - volunteerism autonomy and solidarity - in the process of supplying social services, participating in profitable businesses or creating jobs. To this end, the most fundamental issue to be raised is not how nonprofit organizations can raise more resources from enterprises to carry out essential businesses. It should neither be how to effectively consign social services, which had been neglected from the deterioration of welfare states. The Third Sector has been formed through a long historical process and its reason for existence is advocacy of rights and voluntary supply of services. These organizations take part in supplying social services, revenue making businesses and creating jobs for the vulnerable in the same token. Thus, measures for fostering the Third Sector should be examined in a long-term perspective rather than merely focusing on excessive implementation.

Such awareness was triggered by criticisms regarding the changes of the Third Sector in Korea over the last several years. For the last ten years, Korean civil groups have been actively providing various social services and creating jobs, breaking away from their initial focus on advocacy of rights. The change had great significance in strengthening the community base of the Third Sector. In addition, the government has been implementing policies to promote supply of services through third sector organizations rather than expanding the public sector. However, third sector

organizations encountered identity crisis in the course of providing social services or conducting profit-making businesses. Some go as far as criticizing that volunteerism- and solidarity-based practices are being replaced by bureaucratic rigidity and competition for profits, respectively. What is worse is that these organizations are experiencing serious damage to their autonomy and responsibility. The government is partially accountable because of its third sector support policies.¹⁾ In this regard, a thorough review should be made on the third sector promotion plan in a longer-term perspective.

The purpose of this study is to suggest appropriate policy measures to nurture the Third Sector in Korea, based on the changes and the status for the last several years, experiments conducted by other countries to nurture the Third Sector since the 1990s and the measures taken by third sector organizations to cope with relevant issues. The two major points of this study are: the systems adopted by other countries to nurture the Third Sector and their implications for Korea; and the issues raised over the last ten years of growing interests in and increasing support policies for the Third Sector in Korea. The issues include a more objective evaluation on socioeconomic achievements of the major businesses carried out by third sector organizations, implementation of a sustainable support

1) The political intervention of the government, whether deliberate or not, had a decisive effect to the mindset and conduct of third sector organizations. For the last several years, one of the important objectives of government policies was expanding provision of services and creation of jobs through the third sector. It is also an undeniable fact that such policies contributed to the quantitative growth of the Third Sector.

structure within the sector and the establishment of a well-balanced public sector support structure for the Third Sector.

2. Methods and Sources

Regarding the Third Sector promotion measures in the aspects mentioned above, the objects were limited and various analysis methods have been adopted and they are as follows:

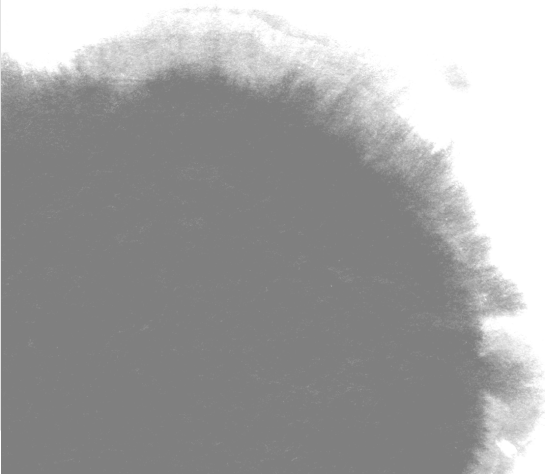
First, the current status and support policies for the Third Sector have been compared to selected countries. Two research data were used regarding the current state analysis. One is the Johns Hopkins Comparative Nonprofit Sector Project, mentioned in many previous researches. While it was inevitably included as the most comprehensive study on the subject, it does not separate important organizations in the socioeconomic aspect such as social enterprises from the third sector. Thus, another data used was the research on socioeconomic organizations of European countries. Countries selected for comparing support policies were France, Germany, U.K. and Japan, considering the fact that most studies published to date are restricted in many aspects for focusing mainly on the policies of the US. In particular, Japan's new NPO law (Law to Promote Specified Nonprofit Activities) has many implications regarding the reform of institutional regulations of the nonprofit sector in Korea. To this end, the major details and implications of the new NPO law have been stated.

Second, the current status and issues of the Third Sector

in Korea has been analyzed as follows. Three types of data were used for analyzing the current state: ① The economic size based on the final consumption expenditure of the nonprofit sector identified by the National Accounts. Existing empirical analyses on the subject have been referenced here; ② Analysis on the General Census of Businesses conducted by Statistics Korea regarding employments and wages of third sector organizations. The area of focus in this study was the health and welfare area; and ③ Results of the analysis on the status of the income, expenditure and employment of third sector organizations. The results of the research by the Korea Labor Institute in 2008 have been referenced. In addition, institutional regulations regarding third sector organizations in Korea are specified to look into the support provided and taxation applied through various institutional regulations to those responsible for advocacy and for service provision.

01

Theoretical considerations



CHAPTER 1

Theoretical considerations

1. Definitions

Depending on the continent, country or the group, the Third Sector may be referred to in different terms such as the Social Economy, Nonprofit Sector or Not-for-profit Sector, Non-market Sector, Charity and Voluntary Sector or Nongovernmental Sector. Organizations with the characteristics of each sector are classified into Non-Profit Organizations (NPO), Social Economy Organizations (SEO), or Non-Governmental Organizations (NGO). This has been brought up again to stress the fact that the Third Sector and the organizations composing the sector refer to two different concepts. The terms above are not identical in a strict sense since each of them refers to a different sector or organization that are different in nature, although they may be overlapping in parts.

Then, is the Third Sector a synonym for the nonprofit sector? While the US tends to use the two terms without distinction, it is not always the case in other countries. Therefore, this section deals with specific definitions of the nonprofit sector. Regarding the subject, it is necessary to reference the definition by Salamon & Anheier. They defined

that the nonprofit sector share seven characteristics: ① Organized, i.e., consist of periodic gatherings, full time employees, procedures and regulations and legal character. This criterion excludes temporary organizations. ② Private, i.e., institutionally separate from government. Nonprofit organizations should be privately led and not controlled by the government through the board of committee. This does not mean that government officials cannot sit on their boards. ③ Non-profit-distributing. Profits must be plowed back into the essential businesses of the organization and must not be distributed to its members. This is what differentiates nonprofit organizations from cooperatives. ④ Self-governing. Nonprofit organizations must be operated based on independent regulations agreed upon by the members. ⑤ Voluntary. Nonprofit organizations are formed on the basis of voluntary participation and devotion of the people. While this criteria does not deny participation of paid employees, voluntary participation and devotion compose an essential part. ⑥ Nonreligious, i.e., not primarily involved in the promotion of religious worship or religious education. ⑦ Nonpolitical, I.e., not primarily involved in promoting candidates for elected office. While this criterion excludes political parties, it preserves advocacy and civil rights and similar organizations as part of the nonprofit sector. (Salamon & Anheier, 1996, 1998).

The above definition of the nonprofit (private) sector raises arguments over the concept of the Third Sector. First, it excludes cooperatives sharing profits among their members, which brings about another issue of whether to include organizations such as social cooperatives that are

membership-based but are open in nature and return their profit to the society. This is the difference with the social economy of Europe, which will be mentioned later. Second, it excludes various friendship-based organizations in the aspects of autonomy, self-determination and altruism, which may raise disputes depending on the organization's openness to community members and the definition of public interests. Third, its exclusion of religious groups may not be viable since those conducting businesses for the public good may be classified as nonprofit organizations. In this case, however, there may be arguments over how to distinguish religious purposes from public purposes. The argument is natural since democracy is based on republicanism in most countries and on the premises of non-religiosity. It will also pose an important problem in the Korean society in the future.

The conceptual difference between the third sector and the nonprofit sector can be more easily described using the concept of the third sector in Europe. The concept has been used early in Europe, with a different meaning and purpose. The third sector²⁾ in Europe is used as a synonym for Social Economy. The legal forms of socio-economic organizations include Associations, similar to nonprofit organizations, Mutuels and Cooperatives. Among these, mutuels and

2) In Europe, the term 'le Tiers Secteur (the Third Sector)' was first used by Jacques Chaban-Delmas in 1970 and was officially conceptualized by European Commission President Jacques Delors in 1979. With the establishment of the Ministry of Social Economy under the Parti socialiste de France (France Socialist Party) in 1998, the concept took a concrete form by Alain Lipietz, similar to the concept of social and solidarity economy. In a report published in the European Union, Mike Campbell used the expression 'The Third System,' which can be understood as the third sector. In 1973, Etzioni used the Third Sector as a contrasting concept to the First (public) and Second (market) sectors.

cooperatives cannot be classified as nonprofit organizations since they are based on cooperation among members and engage in profit making businesses. This classification is reflected in the agreement process between the US and Europe, especially France, regarding the criteria for the nonprofit sector in the National Account. The discord still continues on whether to include cooperatives, not simply at a conceptual level. The recent resolution of the European Parliament should be noted for officially adopting social economy as the core element of the European Social Model, established on the fundamental idea of creating jobs in communities, overcoming social exclusion and improving social integration.³⁾ Although the resolution of the European Parliament does not have binding force like the decisions of the European Commission, much is suggested. To understand the background, it is necessary to have a brief look at why the European society has been adhering to the concept of social economy. Unlike the US where there are clear boundaries between the state, market economy and civil society, European countries have a tradition of emphasizing the institutional control function of the state in focusing on and promoting the solidarity of the economic sector. This tradition is drawing attention once more with social enterprises increasing around the world.

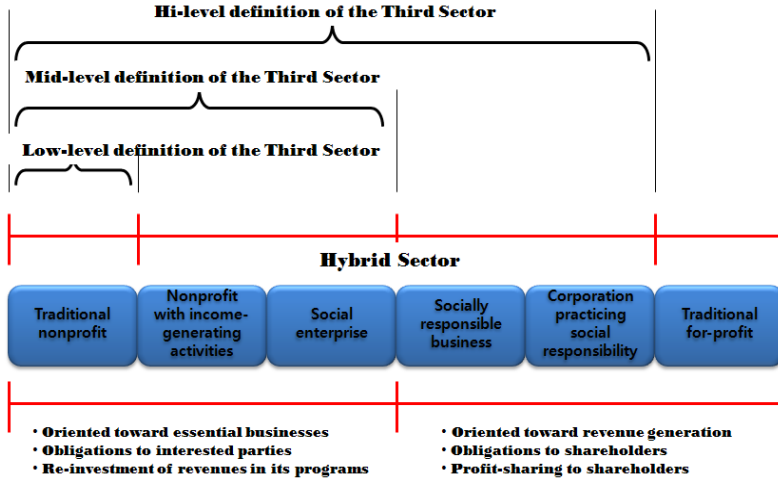
3) The resolution of the European Parliament regarding social economy can be referenced in the following document: Résolution du Parlement européen du 19 février 2009 sur l'économie sociale(2008/2250(INI)).

2. Two Traditions: Path Dependency or Convergence?

The US and Europe have different views toward the concept of the Third Sector. The US considers it to have a symmetric relationship with the market while European countries consider it to have a composite relationship with the state and the market (Westall, 2009).

As depicted in the following figure, the concept of the third sector in the US is based on the traditional nonprofit or charity sector, the ideal type of the concept on the opposite side of the market sector, or the profit sector. However, it is not simple to distinguish the nonprofit sector from the profit sector and is becoming more complicated to set the boundaries, with third sector organizations actively engaging in profit-making businesses. In the center of the figure below, a 'Hybrid Sector' exists between the nonprofit and profit sectors, in the form of an extensive organization. Based on whether it is nonprofit or for-profit, the third sector can be theoretically classified into two large areas. The problem of this classification is that it is hard to clarify the precise scope of the third sector. The following figure shows diverse definitions of the third sector depending on the level of scope:

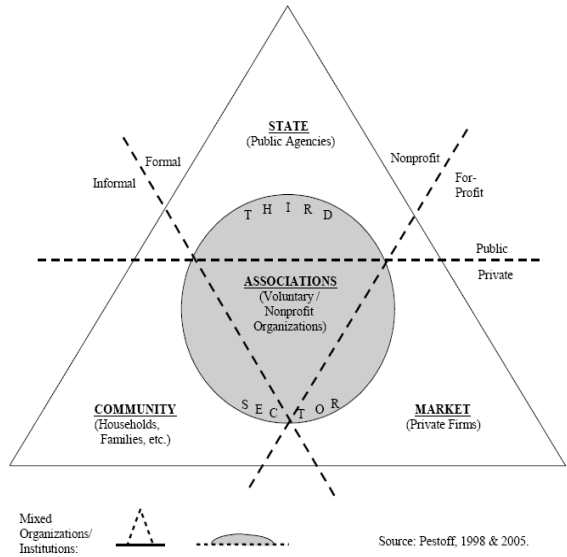
[Figure 1] The traditional concept and characteristics of the third sector in the US



The strong point of this classification is that the concept can be relatively clearly understood from simply comparing for-profit to nonprofit, whereas, the concept of the third sector in Europe is in a more complicated structure. The most widely used definition in Europe is the one by Defourny & Pestoff depicted below. According to the figure, the third sector is where the state, market and the community come across one another. The definition classifies the overall society on whether it is formal or not in terms of legal formality and transparency of taxation; for-profit or nonprofit regarding the economic purpose; and public or private depending on the relationship with the state. The three criteria are not mutually exclusive. Although the third sector shares the characteristics of being private with enterprises, not all such organizations are nonprofit. A large portion of the organizations are informal but some are formal. Likewise, the market is private and generates income

but formal and informal areas coexist. The state is public and formal but not always nonprofit. It is difficult to clarify the concept since various criteria are used. The advantage of this concept is a comprehensive understanding of the sector through the relationship with its important partners, i.e. the state and the market. In other words, the US excludes the state despite its increasing importance to the third sector, whereas, European countries recognize the relationship with the state as an important element.

[Figure 2] The traditional concept and characteristics of the third sector in Europe



Source: Defourny & Pestoff (2008)

Thus, the third sector is accepted in different views depending on the country or the region and the difference comes from their political, economic and social tradition.

These days, however, the concept seems to become closer to that of Europe. It can be associated to the fact that the third sector in the US with nonprofit characteristics is increasingly engaging in income-generating businesses. This means most private sector organizations neither belonging to the state nor the market are being included in the concept of the third sector. The third sector covers a wide scope of organizational forms regarding democratic decision-making from 'self-management' to 'management autonomy' and various profit-sharing methods from 'equal distribution' to 'performance-based distribution.' In the case of France, this attempt started in the late 1990s through new conceptualization, which later expanded to all parts of Europe. (Alain Lipietz, *Le Tiers Secteur*, 2001).

This approach certainly has a great advantage for cross-national comparison from resolving the issues arising from countries regarding the nonprofit sector as the third sector and others recognizing social economy as the third sector. However, it is hard to say that such advantage is actually reflected in the analysis since European countries have sufficient data for cross-national comparison based on the concept of social economy but the US and other countries still limit the concept only to the third sector. In other words, international comparison of the third sector is limited to the European continent, and thus, may not be precise.

Recent trend shows that there are movements among both theorists and decision-makers to bring nonpublic and non-market areas of different terms and organizations in each country together into a single category. This tendency is also reflected in the introduction of papers published by

many researchers in a practical perspective, specifying that the term 'third sector' is used together with the nonprofit sector and even social economy. This is because cross-national comparison is difficult unless practical approach is made and also linked to the fact that organizations with socio-economic characteristics such as social enterprises are rapidly increasing within the third sector. In addition, the traditional way of limiting the third sector to nonprofit organizations not engaged in revenue-making businesses or sharing profits among participants is not sufficient for explaining the diverse organizations. It must be noted that the change is appearing through different routes depending on the country.

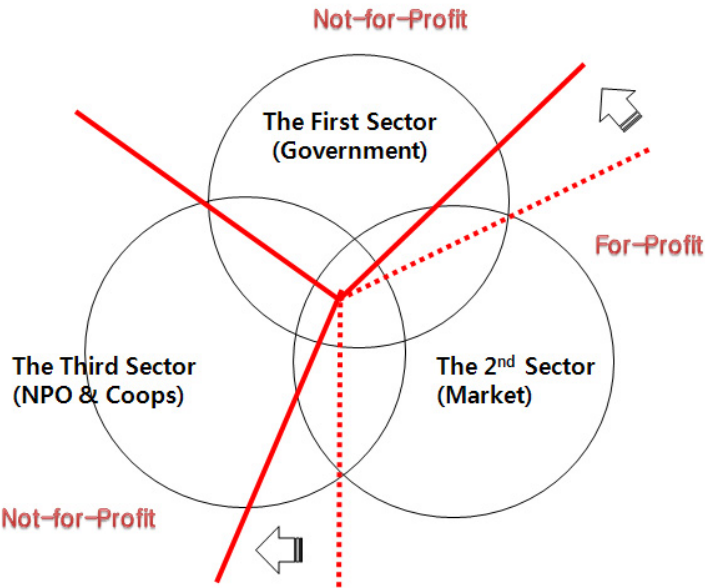
3. The Third Sector: Growth or Crisis?

Many precedent studies mention the consistent growth of the third sector in western countries. However, there may be different views on whether the growth is truly significant or it is another form of crisis. This section will briefly touch upon the significance of the growth of the third sector in western countries.

Classifying the sectors on whether it is public or private clearly divides the sectors into the state and the other two sectors. In terms of distinguishing the sectors on whether it is for-profit or not-for-profit, the first and third sectors have similar characteristics. In this perspective, the third sectors and governments around the world have been constantly expanding into the for-profit area since the 1990s. This is also providing a new environment and challenge in the

aspect of the third sector. If the sectors are divided on whether it is formal or informal, most of the government and the market will be considered formal and a substantial part of the third sector will be considered informal. Economies with a high rate of non-wage area tend to have a large portion of the informal sector, in different aspects by country. Korea, for example, has a relatively large informal sector compared to other OECD countries because of its relatively high rate of non-wage workers. The case is similar in Southern European countries as well.

[Figure 3] Structural changes of the third sector since the 1990s



The figure above represents the changes of the structure and function of the third sector with the expansion of contact points with the first or the second sector. Institutional changes were also inevitable, resulting from the

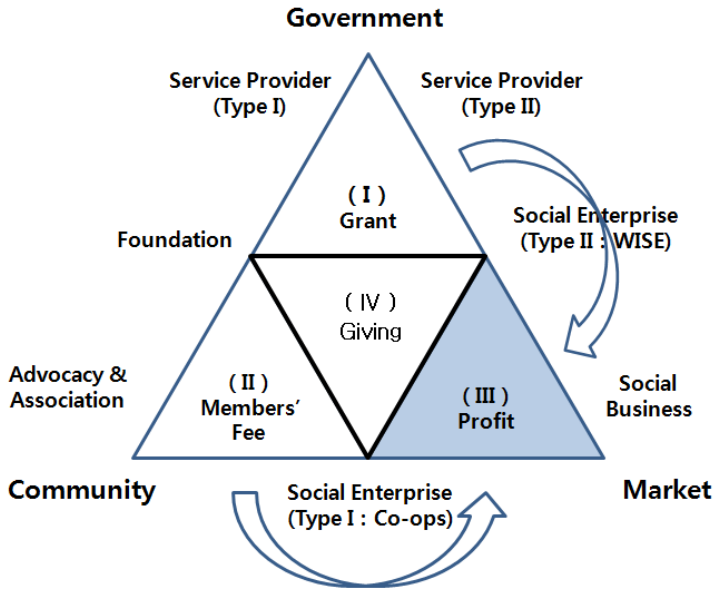
changes in its traditional function of advocacy of rights and provision of services through giving. Advocacy of rights was one of the fundamental functions conducted by third sector organizations against the state and the market. It was a critical function against the lead of the state and the market for the last 30 years during which, the role of the state is reduced despite intensified inequality of the market. Regarding provision of services, the traditional role of charity organizations dependent on donations is changing to providing various social services consigned by the government and based on funds raised through income-generating businesses. It signifies the increase in various forms of profit-making organizations such as social enterprises and cooperatives and influenced the restructuring of the conceptual and institutional status of third sector organizations. It also explains why governments around the world were interested in setting up the legal position for third sector organizations.

In particular, it is worth taking note of the important changes in the service provision methods of the third sector since the 1990s. Here, the key words were 'competition' and 'efficiency' and the changes surfaced through different routes in each country. In the US, services generally consigned to nonprofit organizations were assigned through competition between the organizations and for-profit enterprises. In Europe, nonprofit organizations started to compete with for-profit enterprises for the consignment of various social services, with the regression of welfare states. This does not mean all governments left all social services to the competition of nonprofit organizations and for-profit

enterprises. Governments could not consign various social services exclusively to either nonprofit organizations or for-profit enterprises since the comparative advantage may be different depending on the service. Thus, the provisional methods are different based on the service provided.

The issue may be recognized differently according to the core business area and the organizational form. Those concentrating on advocacy of rights may be sensitive to growing dependance on revenue-making businesses or government aid. On the other hand, those responsible for supplying services may be 'relatively' insensitive to their identity crisis for they have been receiving government aid for a long time. Third sector organizations sometimes tend to ask for more government aid since there are limitations to simply relying on donations or business profits to meet the increasing service demands during economic downturns. The figure below shows third sector organizations and four major financial resources to describe the functional changes of the third sector. The proportion of the financial resources - government subsidies, membership fees, business revenues and donations - differ according to the organizational form and business area. The figure emphasizes that this structure impacted the growth of service providing organizations through consignment of services of welfare states, resulting in increased dependence on business revenues for the last ten years.

[Figure 4] Distribution of third sector organizations depending on major financial resources



The question is, what is the impact of these changes to the third sector. In the critical perspective, the changes may weaken altruistic motives of the third sector and the cost-effectiveness of providing services may be low. There are concerns that 'internalization of social costs,' a unique strength of third sector organizations, may not function properly when they compete for providing services. The changes must not be overestimated: many third sector organizations still operate based on volunteerism and devotion of the civil society and consider autonomy important in the relationship with the government. Nevertheless, it is not possible to deny the serious concerns raised within the third sector. Some organizations actually have degraded to a simple service provider under the

control of the consigning institution, even if considering that they need financing for conducting essential businesses. Some go further to prioritize raising funds than the participation of their community members. The issues cannot be avoided even in the case of separating nonprofit and revenue-making organizations. This tendency also has negative influence on 'democracy of decision-making and restriction of profit-sharing,' both unique characters of third sector organizations. The overall circumstances boil down to a sort of 'identity crisis' of third sector organizations engaging in revenue-making businesses.

4. The Third Sector as the Second Automatic Stabilizer?

The third sector is one of the components consisting the society and any attempt to evaluate its role or effectiveness cannot question the existence itself. However, cross-national comparison of the third sector seems to be based on an implicit agreement of the presumption that the size and operational method of the third sector influence the economic or social performance of each country. Despite the presumption, no conclusion has yet been reached. Therefore, it may be more practical to look into the theoretical developments of third sector organizations' role in relieving or absorbing social economic shock, brought up by many countries since the global economic crisis in 2009, than to arrive at a premature judgement on the role and socio-economic effects of the third sector.

For the last several years, there have been arguments that

third sector organizations relieved the shock from reduced employment during economic downturns by relatively maintaining or even creating jobs. Considering that the existing social security system is working as a shock absorbing 'Automatic Stabilizer,' the third sector is claimed to be working as the 'Second Automatic Stabilizer.' This argument is interesting in the current employment crises encountered by many countries. It also has an important implication for Korea, faced with limitations in resolving poverty and social inequality despite the rapid development of the public social security system. Demonstrating this argument in detail will further serve as a convincing ground for nurturing the third sector in Korea.

There are different interpretations regarding the effectiveness of third sector organizations in absorbing economic and employment shocks. On one side, it is considered 'cyclical' in the sense that the size of income and employment of the third sector changes depending on economic conditions (Mohan & Wilding, 2009). This stresses the changes in the income and employment of the third sector during recessions. While the third sector may be able to work as a 'counter-cyclical force' in the short term, it is also cyclical since the income and the total volume of services provided change according to economic circumstances. On the other side, however, it is considered 'counter-cyclical' in the sense that it absorbs the shock from economic downturns (Salamon, 2010). This stresses the role of third sector organizations in resolving social problems through donations and volunteering and satisfying various welfare demands in economic downturns. The most

distinctive function of third sector organizations is considered to be absorbing the shock of economic downturns.

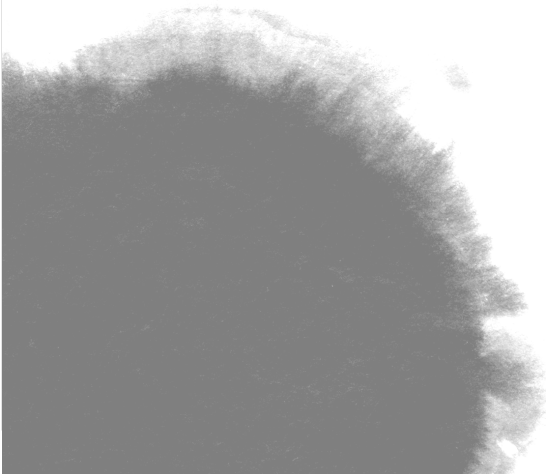
In this regard, it is necessary to first look into what are the impacts of recessions to the income of third sector organizations and how these organizations absorb external shock in terms of expenditure and employment. This section will focus on these two points based on the analyses of researchers from the US, UK and France. Here, it is necessary to mention a few points identified in previous researches. First, overestimation should not be made on the effectiveness of the third sector in absorbing economic and employment shocks. There are limitations to the third sector's role of absorbing the overall employment shock through maintenance or creation of jobs since the size of economy and employment of the third sector does not exceed 10% in most countries. In other words, the shock absorbing effect is very limited. Second, it should not be assumed that the employment shock absorbing effects of the third sector will be identical in all countries. Over-interpretation based on limited set of data or excessive generalization of research outcome in some countries should be avoided since the results may differ according to the size of economy, the number of employees in the third sector and various system and support regulating the sector. Third, external shocks have different influence depending on the region, business type, organizational form and size, even for the same third sector organizations. These factors may either make the organization susceptible to external shock or strengthen its shock absorbing function in times of recessions.

Existing researches present several interesting analysis regarding this matter. ① The size of third sector organizations affects the response to external economic shocks. Although larger organizations are susceptible to external economic shocks, their assets sometimes work as a buffer. They can resolve cash liquidity problems with the assets as collateral and continue to provide a certain level of services. Thus, small-size organizations with weak base in the community are relatively highly impacted. ② Third sector organizations with diversified income structure are less prone to external shocks. Those with combined resources of individual donation, government subsidies and business revenues tend to be more stable. ③ Regarding business area, third sector organizations, of which, the income is most impacted in economic downturns are those in the culture and entertainment area and the educational field. On the contrary, welfare service organizations continue to maintain or even expand their income and employment. It is because strategic distribution of resources are made to these organizations by the civil society or the government to deal with increased service demands during economic downturns. Therefore, the role of a counter-cyclical force is served mostly by organizations providing services to the vulnerable.

Opinions may differ on whether the third sector automatically works as the second stabilizer in absorbing employment or social shocks from recession. There also may be disputes on whether the third sector automatically serves the role or requires direct and indirect support from the government in countries where the economic size of the third sector is relatively small.

02

**The Role of the Third Sector in
selected countries after the
economic crisis of 2008**



CHAPTER 2

The Role of the Third Sector in selected countries after the economic crisis of 2008

1. The Third Sector in the United States

Many papers have been published in the US and other countries regarding the potential of the third sector in creating jobs and added value. Recent focus of the researches are on job creation and maintenance effects of the third sector in relation to decreased employment from the economic crisis in 2009. One of the studies looked into the changes in employment during recessions since the early 1990s (Salamon & Geller, 2010). It showed that nonprofit sector employment increased by 2.38% on average during two periods of economic downturn from 1990 to 1991 and 2001 to 2002, whereas, the profit sector saw a decrease in employment by 2.22%. Moreover, the employment growth rate during normal periods were higher in the nonprofit sector at 2.37% than the 1.78% of the profit sector, leading to the argument that the nonprofit sector in the US made significant contributions in terms of maintaining and creating jobs since the 1990s.

This proved to be valid in the economic downturn of 2009 as well. A survey issued in September states an interesting point on this matter. The analysis by the Johns

Hopkins Center for Civil Society Studies, investigating 21 states regarding the changes in employment, discovered that the employment growth rate of the nonprofit sector was higher than that of the profit sector from 2001 to 2007. Even during the economic slowdown from 2Q 2007 to 2Q 2009, the nonprofit sector employment increased by 2.5% on average, while the profit sector employment reduced by 3.3%. The third sector seemed to have maintained or increased the employment with the expansion of services and jobs from increased demands for major social services during recession (Johns Hopkins Center for Civil Society Studies, 2010). Based on the data, Salamon argued that the third sector in the US is functioning as the counter-cyclical force (Salamon & Geller & Mengel, 2010).

〈Table 1〉 Annual average employment rate of the nonprofit and for-profit sectors in the US

	2001~2007		2007~2009	
	Nonprofit	For-profit	Nonprofit	For-profit
Overall	2.3	0.2	2.5	-3.3
Nonprofit areas	2.3	2.3	2.4	1.4
- Elementary, Junior and senior high schools	4.9	4.6	3.9	1.4
- Mobile healthcare	4.1	3.1	4.2	2.6
- Arts and entertainment	3.3	1.3	4.6	-1.1
- Social assistance	2.4	7.0	1.4	5.8
- Hospitals	2.3	0.7	2.4	1.0
- Universities	2.0	26.4	1.7	14.2
- Membership organizations	1.5	-0.1	0.4	-0.8
- Nursing homes	1.4	2.0	1.8	3.2

Source: Johns Hopkins Center for Civil Society Studies(2010)

A noteworthy point is the way how third sector organizations deal with financial constraints. The measures

taken by the organizations are: curtailing various administrative expenses by reducing spaces and cutting down management and travel costs; downsizing personnels by not hiring new recruits, freezing wages and utilizing volunteers for existing tasks; and taking up entrepreneurial challenge by expanding income-generating businesses, diversifying donations through marketing and establishing a revenue-making subsidiary. Interestingly, most organizations prefer reducing administrative costs and downsizing to entrepreneurial challenge despite the comparative advantage. One of the reason may be from a long history of competition with the profit sector. As of 2008, 42% of third sector organizations in the US is running revenue-making businesses for nonprofit purposes, 53% is not engaged in the business and 5% simply stopped past businesses. The percentage of running profit-making businesses is high in organizations in the arts and culture area and the health and medicare field. Another reason may be because entrepreneurial challenge is hard to take up in recession since financing through new businesses is not effective during economic downturns.

However, there may be different views on the feasibility to take an optimistic stance on the effectiveness of the third sector in mitigating the employment shock and maintaining and expanding provision of services. As Salamon briefly implied at the end of the paper, it is questionable whether the effects can be maintained during prolonged recessions. Considering that third sector organizations in the US are focused more on passively reducing costs than on seeking new financial resources or restructuring to cope with crises,

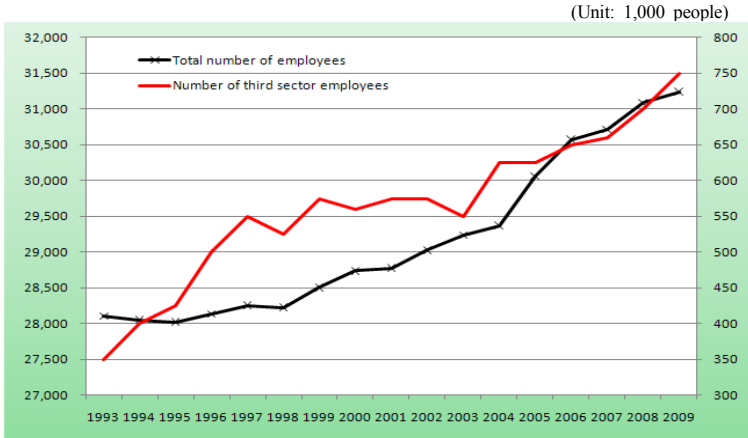
the effect as a counter-cyclical force may be temporary. Similar concerns can be found in other reports published during the same period. A report by Guidestar in June 2009 made it simpler to understand the impact of financial constraints to nonprofit organizations during economic slowdown and how these organizations are responding. In summary, ① 54% of the organizations responded to the interview reduced existing services, ② 44% froze the wages of the employees, ③ 35% reduced the budget, ④ 33% stopped hiring and ⑤ 29% dismissed the employees. Based on the findings, the National Council of Nonprofits pointed out that economic crises are heaving a serious blow to third sector organizations. In other words, the organizations cannot function properly any longer with constant increase in unemployment and those requiring the services in the midst of decreasing individual and enterprise donations and suspension of government subsidies. Allowing for the fact that 93.3% of these organizations are small-size community based organizations with an annual income of under 1 million dollars, the situation is worse (National Council of Nonprofits, 2010). It means the economic crisis of 2009 gave a huge shock to third sector organizations and the effects of job creation and maintenance are more or less exaggerated.

2. The Third Sector in the United Kingdom

Various researches have been conducted regarding job creation and maintenance effects of the third sector in the U.K. as well. This section will go over the number of third sector employees based on the paper published by Moro &

Mckay in 2010. One thing to be aware of is that the numbers does not represent the total number of third sector employees since it was estimated based on the quarterly Labour Forces Survey data by the National Statistics. The survey has been conducted since 1993 by asking respondents the type of organization they are working for and separating out the 'charity and voluntary organizations and others.' The estimation of third sector employees is based on this ratio. The following figure exhibits the total number of employees and the number of third sector employees since the early 1990s. The total number of employees had been stagnant until the late 1990s, which saw a very slight increase until 2004 and rapidly grew since 2005. Compared to such development, the number of third sector employees steeply increased until the mid-1990s and has been slightly increasing since. Cautiously speaking, the increase in the number of third sector employees was relatively higher than the total. However, it is hard to assume that the upward trend continued because the growth rate of third sector employees showed great fluctuation.

[Figure 5] Total number of employees and the number of third sector employees in the U. K,



Source: Moro & Mckay(2010), OECD Statistics

In the U.K., discussions on the third sector's employment shock absorbing effects tend to be conservative compared to the US, with similar inclination regarding the decrease in the income of the third sector. While third sector organizations in the US complain of sudden decrease in income and ask for increased government support during economic downturns, a directly opposite issue is raised in the U.K. on whether the income of third sector organizations actually decrease during such times. Although many nonprofit groups point out that income from donation has sharply decreased during the recent economic crisis. At the same time, however, some argue that donation income in the U.K. did not reduce much even during the Great Depression, going further to criticize that the nonprofit nongovernmental organizations are more or less exaggerating to secure maximum support from the government (Mohan & Wilding, 2009).

One of the recent disputes over the third sector in the

U.K. is the growing dependency on public aid. An article⁴⁾ on <The Guardian> on April 21, 2010 pointed out that third sector organizations in the U. K. are experiencing an important change in the income structure, which is leading to disputes over whether it is desirable for the future of the third sector as a whole. The article revealed that the donation from the state became larger than the donation from the private sector for the first time in history. While the findings may not be welcoming to the third sector, a more serious problem is whether this income structure can be maintained. The government aid of £ 12.8 billion per annum as of 2009 will probably not continue considering the drastic decrease in individual donations since 2008. Donation per capita decreased by £ 2 to £ 31 in 2008 from the previous year but the support from the state increased constantly, leading to a reversed situation. The National Council for Voluntary Organisations sent a warning message on this matter. The annual amount of £ 12.8 billion, consisting of £ 9.1 billion in aid and £ 3.7 billion in subsidies, is risky in terms of business stability. Government spending is expected to reduce under the current circumstances of global recession and there will be much confusion in case third sector organizations become the first target. The fundamental problem is the inclination to recognize the third sector as a 'soft-target' for cutting costs. In a situation where third sector organizations are providing social services to the vulnerable, reduced budgets may have a negative impact on its relationship with the civil society.

4) David Brindle, "Charities in a state of anxiety over funding," 『The Guardian』, Wednesday 21 April 2010 Article history

As a resolution, organizations that may be acknowledged as quasi-government institutions - housing organizations, schools and colleges and religious groups - may be excluded from third sector organizations. This, however, is not possible with the complicated structure of the third sector and the constantly increasing government support. It is difficult not to be tempted to compete for consignments in a situation where local governments rush to consign cultural or sports facilities and services to third sector organizations.

A recent paper presents a detailed analysis on the matter (Clifford & Rajme & Mohan, 2010). It analyzes a nationwide survey on third sector organizations in the U.K. and the dependency of these organizations on public fund. Briefly outlined, approximately 36% of these organizations are receiving public fund in one form or another and 14% (or 23,000 organizations) responded that legal aid is the most important source of income. In detail, however, the dependency varies according to the legal form, business size and the business area of the organization. The reliance is particularly high in the case of third sector organizations supporting the vulnerable in large cities, which seems to be closely related to the necessity of public funds for satisfying the needs of the vulnerable. In terms of legal form, Incorporated Charities and CICs receive the largest public support at 61% and 57%, respectively. There is a huge gap with Unincorporated Charities and IPS, organizations without not running profit-making businesses, with public support of 31% and 31%, respectively. Another important point is that the reliance on public fund is higher in third sector organizations with huge income or many employees.

Considering the changes in the number of employees and income structure of the third sector, the employment shock absorbing effects of the third sector in the U.K. can be interpreted as follows: Organizations with a relatively stable income structure maintain a steady number of employees even during recessions. The economic size and the number of employees tended to increase in certain areas through expansion of providing services to the vulnerable. Although the effects may be limited, the organizations do function as shock absorbers during economic downturns.

3. The Third Sector in France

The Institut National de la Statistique et des Etudes Economiques (INSEE: National Institute of Statistics and Economic Studies) has been announcing the information on the status of employees of socio-economic organizations since 2005. The data is significant for being investigated at the government level, considering that most third sector-related data are presented by private groups. This implies the increased influence of the third sector to the overall economy and the society. According to the INSEE data, third sector employees account for 9.9% of the total. By industry, the percentage of third sector employees was highest in the social action area, followed by others (42.5%), finance and insurance (28.9%), education (20.7%) and health and medical (10.9%). This shows that third sector organizations were most active in the social action field. Industrial distribution of the third sector employees was also highest in the social action area at 37.8%, following in the order of others

(15.4%), education (15.3%), finance and insurance (10.8%) and health and medical (7.6%), meaning that the social action field had the highest influence to the number of third sector employees.

The following table represents the dominating organizational form of the third sector by industry. Nonprofit private organizations, which is a voluntary association, account for the largest portion of third sector organizations as a whole and employ 78.2% of the third sector workers in total. Next comes cooperatives at 13.7%, mutuals at 5.3% and foundations at 2.8%. Although the third sector is deemed to be based on the concept of social economy in France, nonprofit private organizations are dominating the picture in general. By industry type, the number of employees of cooperatives was high in the order of agriculture and fisheries, mining and manufacturing, finance and insurance, wholesale and retail and accomodations and restaurants. For mutuals, most were working in the finance and insurance field and the health and medical industries. In general, nonprofit private organizations have higher numbers of employees in the order of education, social welfare, information and communications, real estate and health and medical industries. In the case of foundations, the number of employees was highest in the health and medical industry.

〈Table 2〉 Percentage of third sector workers by industry and distribution by organizational form

	Total number of workers (1,000)	Third sector workers (%)	Percentage of third sector workers			
			Cooperatives	Mutuals	Nonprofit organizations	Foundations
Agriculture and fisheries	232	2.8	100.0	0.0	0.0	0.0
Mining and manufacturing/Construction	5,145	1.1	92.7	0.0	7.3	0.0
Wholesale and retail/Accommodations and restaurants	5,408	1.8	65.0	4.7	29.6	0.7
Finance and insurance	845	28.9	67.4	32.6	0.0	0.0
Information and telecommunications/Real estate	3,303	4.1	14.8	0.5	80.5	4.2
Education	1,668	20.7	0.6	0.0	97.7	1.8
Health and medical	1,558	10.9	0.1	11.7	75.0	13.1
Social welfare	1,363	62.7	0.1	1.7	95.1	3.1
Other	816	42.5	0.5	0.0	99.0	0.5
Total	22,799	9.9	13.7	5.3	78.2	2.8

Note: The source is as of 2008 and the new industrial classification has been applied.
Source: INSEE, CLAP

Detailed analysis of the changes in the third sector workers in France during the recent economic crisis is yet to be announced. The number and percentage of workers from 2005 to 2008 are represented in the above table and the figure below. Year-on-year rate by organizational form shows that the increase rate of the third sector was recorded at 3.06% and 4.66% from 2005 to 2006 and from 2006 to 2007, respectively, higher than that of the for-profit sector at 1.44% and 2.78%. With the economic crisis during the period 2007 to 2008, the rate of increase for nonprofit sector workers stood at 0.62% and for-profit sector at 0.71%, both representing a slowdown in the growth rate. Therefore, it is hard to assume that the increase in the number of third sector workers is absorbing the employment shock of the for-profit sector since the number of workers also reduced

in third sector organizations as well.

[Figure 6] Changes in the number of employees in the third sector and the profit sector in France



Source: INSEE, CLAP

The third sector in France was also not free from the global economic crisis in 2009. While there are many aspects, this section will focus on the survey conducted in the first half from 2008 to 2009 by the regional association for social economy in the Loire region. The survey investigated the influence of the economic crisis to social economic organizations in France (CRES, 2009).

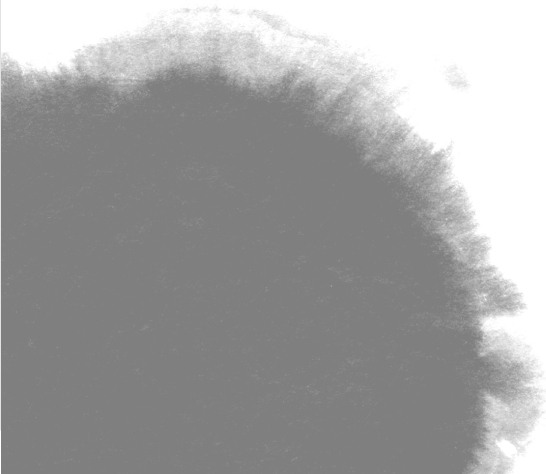
Among third sector organizations in France, several aspects experienced by 'Associations' - meaning nonprofit organizations - under the economic crisis is shown in the following figure. A relatively high number or 63% of the respondents answered that there are sufficient number of volunteer workers supporting non-profit organizations. A total of 69% answered in the negative at the question on whether the number of members are reducing. On the other

hand, however, 30% answered that the number of members has been reduced. Regarding the question on whether there are difficulties from reduced income or financing, 56% answered in the negative and 42% answered in the affirmative. The response implies that quite a lot of the organizations are doing well but not a few of them are experiencing difficulties at the same time. Approximately 81% answered in the affirmative on whether they will consider reduction in income for establishing the business plan for 2010, suggesting that the organizations have been operating relatively well until 2009 but measures such as cutting down businesses may be taken in case the crisis is prolonged.

Third sector organizations in France seemed to have a certain level of employment shock absorbing effects before 2009 and since the economic downturn in 2009. The possibility was also proven by the changes in the income structure in 2009 as the income decreased for some organizations but has been kept stable as a whole. A distinctive character of the organizations in France is that a considerable number of them are related to social economy and even general civil groups or associations consider themselves as socio-economic organizations. It means that these organizations emphasize the solidarity between the local community base and the relevant organizations. Put another way, third sector organizations with strong community base and active participation in the society serve relatively stable roles in absorbing economic shocks.

03

The Third Sector in Korea



CHAPTER 3

The Third Sector in Korea

1. Third Sector in the perspective of cross-national comparison

The argument by Salamon & Anheier is worth taking notice for prototyping the third sector in the perspective of cross-national comparison. They classified the third sector in each country under the categories of the Statist Regime, Liberal Regime, Social Democratic Regime and the Corporatist Regime (Salamon & Anheier, 2000). The Statist Regime refers to cases where both social welfare expenses and the nonprofit sector are small; Liberal Regime has a low level of social welfare expenses but a large nonprofit sector; Social Democratic Regime has a high social welfare expenses level but a small nonprofit sector; and both are large in Corporatist Regime.

According to Salamon's 'Global Civil Society: An Overview,' the third sector employment (including unpaid workers) of the 35 countries analyzed was estimated at 4.4%, with Netherlands recording highest at 14.4%. Korea stood at approximately 2.4%, in the lower ranks in terms of the third sector size as of 1995. The figure, however, varied depending on the analysis method, suggesting that the economic and employment size of the third sector in Korea

may have been underestimated. In particular, the study was conducted at the point when many nonprofit organizations played an important role in providing educational services, prior to the expansion of social welfare services. This explains why nonprofit organizations in the education area accounted for a large proportion. An interesting point in the cross-national comparison is regarding the countries with small number of paid workers and large number of volunteers, mostly in social democratic welfare states in Northern Europe. As was mentioned earlier, the function of providing various services are dominated by welfare states, and thus, there is little room for third sector organizations to operate. Even the role of cooperatives were limited to mutual cooperation of their members.

One critical factor characterizing the third sector is the income structure. According to Salamon's research, third sector organizations of the countries analyzed had a cash income structure consisting of 53.4% in usage fee, 34.9% in government subsidies and 11.7% in donations. This ratio was found to be similar in both the US and northern European countries but different in nature. The functional distribution of the third sector employment shows that while the US has many nonprofit civil groups participating in health and welfare services relying on costs paid by the users and the third parties, the third sector providing health and welfare services was small in Sweden. Continental Europe exhibits a directly opposite situation. The total cash income of third sector organizations in these countries can be broken down into 57.6% of government subsidies and 35.4% of usage fee, meaning that nonprofit groups are

highly engaged in the health and welfare services and the expenses are borne mostly by the governments.

Compared to western countries, Korea and Japan are typically less developed welfare states or countries with weak government support for the third sector. In terms of the cash income of third sector organizations, usage fees accounted for 61.8% on average in the case of Korea and Japan together and 71.4% in Korea alone. The income structure of the third sector in Korea tends to rely on the financial resources of the civil society and the lagging development of the civil society hinders the advancement of the third sector, and the case is similar for the overall support including volunteering. However, there also is a possibility of rapid increase in the government aid in Korea over the last several years.

〈Table 3〉 Characteristics of the third sector by country type

	Total	US	Norther Europe	Continental Europe	Asia (Korea/Japan)	Korea
Full time employees						
- Paid	2.8	5.2	2.3	5.4	2.5	1.9
- Volunteer	1.6	3.0	4.1	2.3	0.8	0.6
- Total	4.4	8.2	6.5	7.8	3.3	2.4
Resource structure						
- Service	63.3	69.2	33.6	72.7	78.4	81.9
- Cause	32.4	27.4	63.6	24.5	14.9	18.1
- Other	4.3	3.4	2.9	2.9	6.7	0.0
Cash income						
- Usage fee	53.4	54.6	59.4	35.4	61.8	71.4
- Government	34.9	36.1	33.3	57.6	34.8	24.3
- Donation	11.7	9.3	7.3	7.0	3.5	4.4
Overall support						
- Usage fee	42.4	44.4	35.0	27.7	55.7	63.5
- Government	27.2	29.2	19.9	45.7	31.6	21.6
- Donation	30.4	26.4	45.0	26.6	12.8	14.9

Source: Modified from Salamon & Sokolowski & List(2003)

It was pointed out earlier that the income and expenditure structure of third sector organizations are highly impacted by the welfare expenses and the operational method of the welfare system of each country. It should also be considered that the rapid development of the welfare system for the last ten years may have impacted the income structure of these organization in one form or another. In western welfare states, the retrenchment of welfare may have increased the proportion of government aid in the income structure of third sector organizations. The recent analysis is that third sector organizations underwent rapid growth with services, once directly provided by the public sector, being consigned to nonprofit and for-profit civil organizations.

In the case of Korea, the income structure of the third sector may have changed largely from a completely opposite reason. Since the economic crisis in 1997, welfare expenses have sharply increased, leading to a large percentage of government support in the income structure. In other words, the structure changed as a result of 'welfare expansion.' A prejudgement should not be made since the analysis results must go through in-depth comparison with the income structure of third sector organizations to arrive at a conclusion (Dae-myung No et al., 2008).

2. The Third Sector in Korean studies

Researches on the third sector in Korea have only recently started to focus on the size of economy and employment. However, the results can be highly evaluated in various aspects for laying the groundwork for future studies on the

third sector in Korea. In this section, two researches will be cited regarding the matter: one by Tae-gyu Park (2006) and the other by Hye-won Kim (2008). In particular, the latter analyzes massive statistic data to identify nonprofit organizations by industry type and estimate the size of economy and employment.

The study by Tae-gyu Park has definitely taken a leading role in this subject. According to his paper (2006), the economic size of the nonprofit sector in Korea was estimated at 3.38% and 3.92% in 1997 and 2003, respectively, showing an increase of 0.54%p over approximately 6 years. In terms of industry type, the highest rate in 2003 was for the education area. A distinctive point was that the economic size of the health and medical area increased sharply compared to the estimation in 1997, which may be from the criteria for classifying the nonprofit sector, to include the overall medical corporations or only those operated by nonprofit organizations.

Hye-won Kim made various attempts to estimate the employment size of the nonprofit sector, using the statistical survey on businesses and the census on economically active population (Hye-won Kim et al., 2008). The following table shows the number and percentage of employees in the government, private profit and private nonprofit sectors. In the table, nonprofit sector employees in 2006 accounted for 9.3% of the total according to the statistical survey on businesses, whereas, it accounted for 6.2% according to the census on economically inactive population. The large gap between the two comes from how each industry type distinguishes nonprofit private organizations. Although the

gap maybe large, the attempt itself is significant. Another industry type with a large gap in estimation was the agricultural and fisheries field. The gap may be larger in case of classifying the health and welfare sector in more detail.

〈Table 4〉 Percentage of the third sector within the industry (as of 2006)

	High-level classification	Based on statistical survey of businesses			Based on the census on economically active population
		The third sector	For-profit sector	Government	
Agriculture	A	73.9	23.0	3.1	1.1
Fisheries	B	40.2	57.1	2.7	3.8
Mining	C	15.5	84.5	0.0	15.9
Manufacturing	D	0.8	99.2	0.0	0.6
Electricity and gas	E	41.4	40.5	18.1	36.7
Construction	F	0.9	98.8	0.3	0.4
Wholesale and retail	G	1.3	98.7	0.0	0.8
Accommodations and restaurants	H	0.4	99.5	0.1	0.3
Transportation	I	6.3	93.2	0.4	4.8
Telecommunications	J	0.7	65.2	34.0	0.3
Finance and industry	K	25.8	74.2	0.0	20.3
Real estate and rental	L	32.9	67.0	0.1	27.3
Business services	M	7.6	91.0	1.4	5.4
Public administration	N	0.0	0.0	100.0	0.0
Education	O	25.0	35.1	39.9	18.8
Health and welfare	P	44.0	51.4	4.6	44.7
Entertainment, culture and sports	Q	9.7	83.9	6.4	7.3
Other public repairing	R	26.3	72.9	0.8	16.8
Household affairs	S				
International	T				
Total		9.3	83.0	7.7	6.2

Source: Statistics Korea (2006), Original source of the statistical survey of businesses from Statistics Korea (2006), Census on economically active population from Hyewon Kim et al. (2008)

As is mentioned above, it is necessary to look into the significance of the increase in the number of nonprofit sector employees. Changes in the employment quality should be examined by comparing the employment size to unit costs

based on the effect of employment inducement. According to Hye-won Kim (2008), the effect on employment inducement of the private nonprofit sector is much higher than that of the government or the private profit sector but is gradually slowing down. The results represent the possibility of a relatively low average wage of the workers in the nonprofit sector, suggesting another issue of the wage gap within the nonprofit sector. Even in the nonprofit sector, the wage gap is large between the medical and social welfare sectors. Thus, the wage of the nonprofit sector may actually be lower if the medical sector with a relatively high employment size is excluded from the estimation (Dae-myung No et al., 2008).

〈Table 5〉 Employment inducement effects of the private nonprofit sector

		Employees	Employers
1993	Government	39.1	34.1
	Private profit	36.3	23.1
	Private nonprofit	57.6	39.5
1998	Government	33.0	28.1
	Private profit	25.7	15.6
	Private nonprofit	46.4	31.6
2000	Government	25.1	21.9
	Private profit	20.7	12.6
	Private nonprofit	38.0	29.4
2003	Government	20.1	17.6
	Private profit	17.7	11.6
	Private nonprofit	30.7	26.6

Note: Number of employees and employers increasing in case an investment of KRW 1 billion is made to the concerned industry.
Source: Hyewon Kim et al. (2008)

The study by Hyewon Kim seems to be restrained by the limitations of classifying profit and nonprofit by industry type when it comes to comparing the wage level of third

sector organizations with that of the profit sector. It is probable that the average wage of the nonprofit sector is found higher than that of the profit sector in some industries because there are organizations with the characteristics of a profit-generating business to a certain level. Regarding the matter, it is necessary to briefly go over the numbers of the health and welfare sector (Daemyung No et al. 2008). The total expenditures of third sector organizations in the health and welfare sector consist of 48.2% in personnel expenses, approximately 10% higher than 36.87% of profit organizations. In terms of return on investments, third sector organizations recorded around 10.93% and profit organizations recorded 25.97%. The figures suggest that third sector organizations are more labor-intensive than profit-making businesses and the returns are relatively low. In the health and welfare area, the wage gap between the profit and nonprofit sectors were very wide. The gap is also wide between the health area and welfare area even for the same third sector organizations.

3. The Size of the Third Sector: Revenues and Employments

As indicated earlier, it is difficult to find reliable data for estimating the size of the third sector employment. To this end, this section estimates the employment size using the labor panel data among various options. The labor panel data is based on responses to questions on the type of companies preferred by paid workers. Although several items changed in the third and sixth rounds, the data

showed relatively consistent results in most part regarding corporations, foundations, civil organizations and religious groups. This data may not represent the overall size of the third sector employment since it is not possible to distinguish organizations such as social welfare corporations that cannot be included in the corporation category. Another thing of note is that the number of third sector employees sharply increased between 2003 to 2004 with a new category of civil organizations added to the survey table in 2004 (Hyewon Kim et al., 2008). In other words, this increase in the number may not be a result of increased employment in the sector. Considering the changes in the third sector employment size thereafter, however, the trend of third sector employees should also be analyzed based on the labor panel data.

The third sector employment in the figure below has been estimated based only on the company type and the percentage was calculated by using total number of paid workers and total number of employees as parameters. In this section, the estimations have been converted into percentages against the total number of employees since the estimations Hyewon Kim et al. (2008) seem to be percentages against the number of paid workers. The result shows that the percentage of third sector workers was estimated at 2.91% in 1998 but decreased to 1.88% in 2000. It constantly rose to 4.09% in 2005 but reduced again to 3.54% in 2006 and increased by a small margin to 3.78% in 2007. Even if the issue of classification of the data itself is considered, the size of the third sector employment seemed to have somewhat decreased since 2004.

[Figure 7] Percentage of the third sector employees based on the labor panel



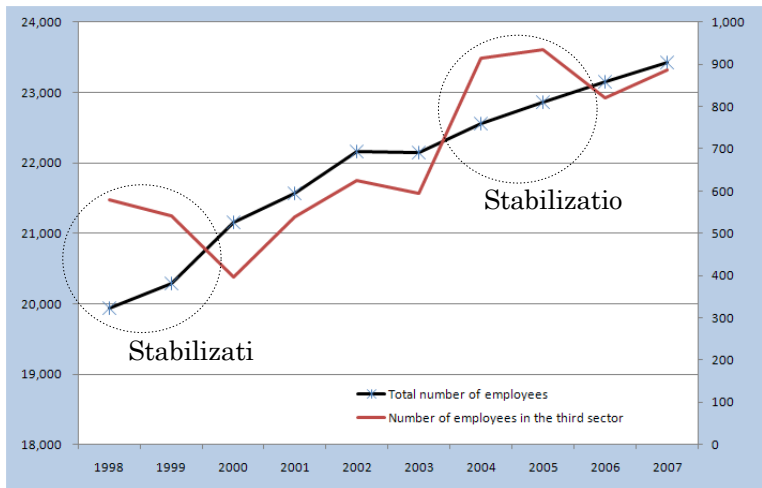
Note: Third sector employees include all of those working corporations, foundations, civil organizations and religious groups in terms of company type.

Source: Korea Labor Institute, Data of 1st to 10th labor panel processed for the purpose.

The findings are very interesting in case the size of third sector employment is estimated based on the above data and represent the results in a figure along with the trend of total number of employees. One thing to keep in mind is that the yearly figures may not be sufficiently reliable, and thus, should be simply utilized as a reference for understanding the overall picture. According to the following figure, the number of third sector employees increased relatively highly compared to the overall number of jobs immediately after the economic crisis in 1997 and the credit crunch in 2003. Although it is hard to state that the increase largely impacted the overall increase in the total number of employees, the third sector employment more or less resolved the social issues resulting from unemployment and poverty. This supports the hypothesis of the third sector's role as a counter-cyclical force in absorbing external

economic shock, although limitedly.

[Figure 8] Total number of employees and the number of third sector employees in Korea



4. Third Sector Organizations

It is possible to understand the sectors and organizational forms of third sector organizations in Korea by comparing the distribution of these organizations in the classifications by ICNPO and by the corporation type. Each cell in the following table is represented in the % of the total. More specifically, the corporation type broke down into 38.1% of corporations and 34.4% of non-corporate registered civil organizations, both accounting for 72.5% in total, 17.2% of foundations and 5.6% of social welfare corporations. The corporation type, however, does not reveal what business the corporation is engaged in. In terms of business area, the

welfare area recorded the highest at 47.1% and the education area followed with 10.7%. It is possible to understand that most third sector organizations in Korea, even those that are not social welfare organizations, are active in the social welfare area. In other words, third sector organizations in the welfare area take up the largest portion among such organizations.

〈Table 6〉 Distribution of third sector organizations by legal form and business area

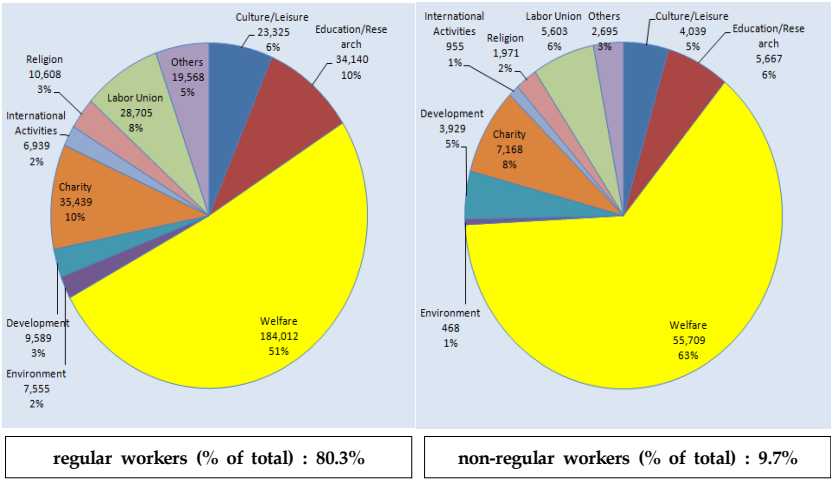
	(% of the total)								
	Foundation	Corporation	Non-corporate registered civil organizations	Non-corporate non-registered civil organizations	Social welfare organizations	Educational corporations	Nonprofit corporations	Others	Total
Culture and leisure	0,8	3,3	2,4	0,1			0,2		6,8
Education and research	3,7	3,6	3,0	0,4		0,0	0,0	0,0	10,7
Welfare	9,5	15,5	15,7	0,7	5,3	0,1	0,0	0,4	47,1
Environment	0,1	1,9	1,4	0,1			0,1	0,3	3,8
Development and housing	0,7	2,0	2,6	0,2	0,0			0,0	5,6
Charity	0,1	1,9	0,9	0,0	0,0				3,0
International activities	0,1	2,4	0,3	0,1	0,0			0,0	3,0
Religion	0,8	0,6	1,4	0,6					3,3
Group labor union	0,4	4,4	4,6	0,5	0,2	0,1		0,1	10,3
Others	1,1	2,6	2,1	0,7			0,0	0,0	6,5
Total	17,2	38,1	34,4	3,3	5,6	0,2	0,4	0,9	100

Source: Processed based on the data of Daemyung No et al.(2008)

The percentage of third sector organizations in the welfare area is higher in the number of employees. The following diagrams classify the third sector employees into regular and non-regular employees, representing the percentage of employees by business area. Regular employees occupied 80.3% while non-regular employees occupied 19.7% in the third sector. Approximately 51% of the regular employees

and 61% of the non-regular employees were estimated to be working in the welfare area. The results suggest that third sector organizations in the welfare area have high influence on the size of the third sector employment.

[Figure 9] Percentage of regular and non-regular workers by business areas of third sector organizations

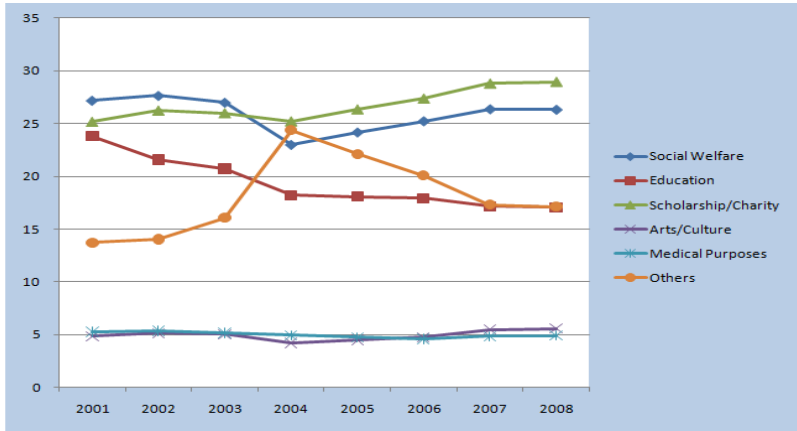


Source: Processed based on the data of the study by Daemyung No et al. (2008)

At this point, it is necessary to look into another aspect of the business areas and the trends of third sector organizations in Korea, based on the status of public corporation by cities and regions and by type. The figure below represents quite a different outcome compared to the above. As of 2008, the largest percentage of public corporations was in the scholarship and charity field at 28.9%. The number goes up to 46.0% if those in the education business are included. Public corporations with the cause of social welfare are estimated at approximately 26.3%. The analysis, however, has been conducted on public

corporations and considerations should be made regarding the fact that essential businesses for registering a corporation are very complicated. Thus, the focus of the following figure should be on the trend than on the distribution, which enables an interpretation with different implications: the growth of the organizations in the social welfare area and in the scholarship field in the form of foundations were much higher than those in other areas.

[Figure 10] Percentage of third sector organizations by business area



Source: National Tax Service (2010), 『Status of public corporations by cities and regions and by type』

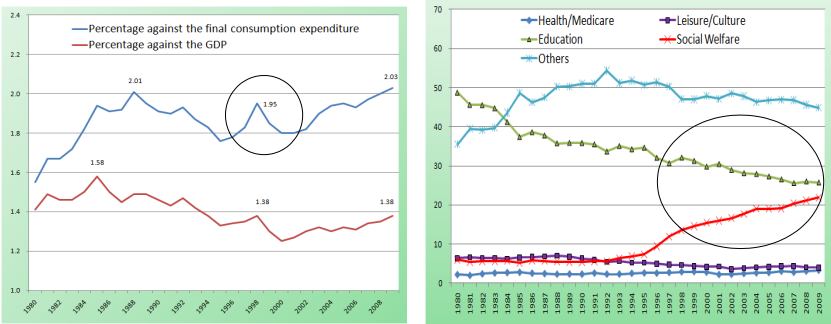
5. Issues and Debates

1) Economic Size of Third Sector: Growth in All Fields?

The figure on the left below shows the percentage of final consumption expenditure of the 'nonprofit sector servicing households' in the total final consumption expenditure and the GDP from 1980 to 2009. It shows that the economic size

of the third sector in Korea continued to decrease since the mid 1980s but bounced back from 2003. While the consumption expenditure of the nonprofit sector against the GDP has been in an upward trend since 2003, it is still at quite low overall. Therefore, it is difficult to assume that the increase is significant in terms of comparative percentage. The figure on the right is a breakdown of the economic size of the third sector by function. This figure represents a sharp decrease of the economic size in the education area over the last 30 years and a rapid increase of the welfare area since the mid-1990s. The economic size of the health area did not change much. The percentage was highest in the 'others' area, encompassing various business areas, which showed a slight decrease over the last 30 years.

[Figure 11] Percentage of the final consumption expenditure of the nonprofit sector (left) and the percentage of consumption by business area (right)



Note: 1) % against the total final consumption expenditure
2) % against the GDP

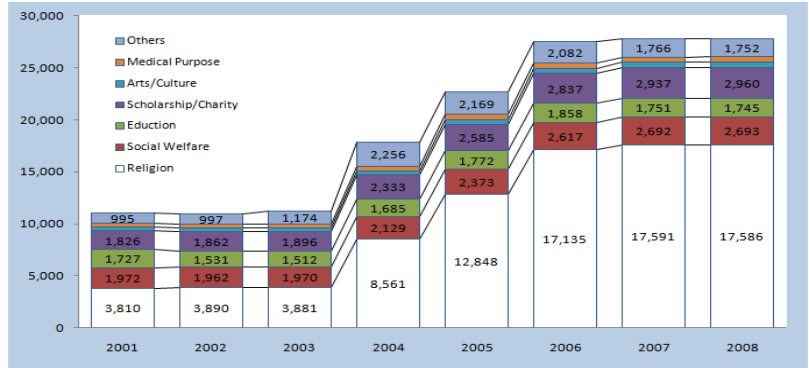
Note: % of the final consumption expenditure by business area against the total final consumption expenditure of nonprofit organizations

Source: Bank of Korea, Processed based on the national accounts data of ECOS

The economic size of the third sector in Korea restarted to grow in 2003: one reason being the rapid increase in

religious corporations; and the other, from the expansion of nonprofit organizations in the social welfare area based on increased welfare expenses of the government. While the former seems to have had a strong influence, it was rather from existing religious groups being included in the statistics than from the increase in their income. The latter shows the increase in relevant organizations from rapid expansion of the government expenses in the welfare area and growing interests in the civil society but the fact is not clearly represented in the national accounts data.

[Figure 12] Size of public corporations by function



Source: National Tax Service (2010), <Status of public corporations by cities and regions and by type>

2) Employment in Third Sector: Another Dualization?

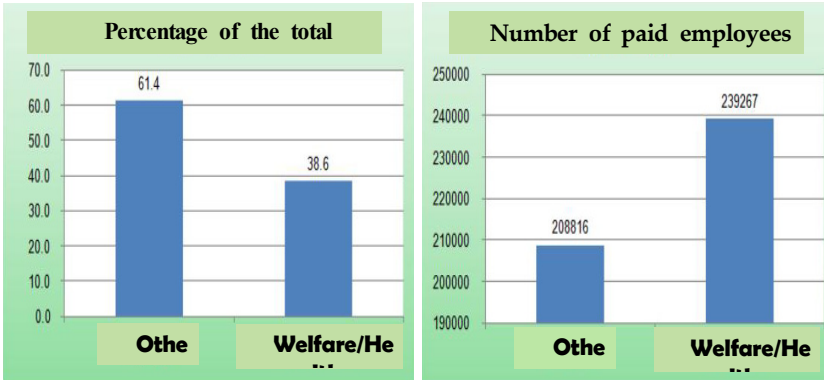
The third sector employment in Korea as of 1995 occupied 2.4% of the total number of employees (Salamon et al., 2003). Almost no estimation has been made since regarding the number of employees. A recent report estimated the total number of third sector employees in Korea at 1.43

million as of 2006, accounting for around 6.2% to 9.3% of the total number of employees and continuing to increase since 2002.⁵⁾ In terms of industry type, about half of all the third sector employees were working in the health and welfare area.⁶⁾ An important point is that the number of employees increased despite a minor growth of the economic size of the third sector. This means that there are large differences in the labor intensity of the third sector. The employment inducement coefficient of the social welfare area, with the highest percentage for the third sector at 37.0, more than doubling the coefficient of 15.1 of the health and medical sector. These figures imply that the number of employees may increase even if the economic size of the third sector grew only slightly and that the wage gap within the third sector is large depending on whether the employee has a professional career or not.

5) The study by Hyewon Kim et al. (2008) estimates the number of third sector employees by distinguishing nonprofit organizations based on the information such as the company name in the statistical survey on businesses. Although the estimation may not be sufficiently accurate despite the amount of work, it is inevitable to use the results since there are no other options available. The estimation was expressed in the minimum and maximum figures from using the total number of employees in the statistical survey on businesses and that of the census on the economically active population. Hyewon Kim et al., <An empirical study on job creation of the third sector>, 2008

6) The study by Daemyung No et. al. (2008) estimates that the health and welfare sector workers account for 53.4% of the total number of employees in the third sector, based on the source data of the 'Survey on the actual status of nonprofit businesses' conducted in 2008. Based on the <Census of service industries>, third sector employees of the health and welfare areas stood at 7.4% and 92.6%, respectively, with the welfare area workers occupying most of the portion. Daemyung No et al., [A study on the Third Sector in the Health and Welfare Area], 2008.

[Figure 13] Economic size and number of employees of nonprofit organizations in the health and welfare area, and other areas



Source: Bank of Korea, Processed based on the Input-Output tables of ECOS

Regarding the increase in employment despite little changes in the economic size of the third sector, the implications should be carefully considered in the aspect of the 'quality of employment.' First, the high percentage of full time workers in the third sector may not necessarily imply a high wage level compared to that of the full-time employees in general. While some point out that the wage level is not low, an in-depth analysis is required on this matter since the reality is that the average wage of third sector organizations cannot be deemed high, apart from quasi-public institutions or some types of jobs of the health and welfare area. Furthermore, the wage gap is large even within the health and welfare sector, if distinguishing the health area and welfare area; accommodations and usage facilities; and by service target groups. Second, the percentage of part-time workers is exceptionally high in the health and welfare area, which grew rapidly over the last ten years. Considering the importance of health and welfare

organizations in the overall third sector, the quality of employment may not be guaranteed.

3) Revenues in the Third Sector: Growing Dependency?

At present, third sector organizations around the world are seeking survival through income diversification in an ever-changing environment. These trends have important implications to third sector organizations in Korea since the dependency of these organizations on government subsidies will probably increase considering the low rate of individual donation and insufficient financing through profit-making businesses. The reliance may have negative influence to the autonomy or devotion of third sector organizations. Thus, third sector organizations in Korea must exert more efforts to reduce their dependency on government aid and diversify the income structure.

In general, the dependency on government aid in the income structure of third sector organizations varies widely by industry type. Those mainly working as service providers rely heavily on government aid or on income from business consignments. The following table shows that government aid, comprising of ordinary subsidies and government aid on usage fees, accounts for most of the third sector income at 38.2%. Next comes the service usage fee at 19.9%, followed by individual donations at 12.9%. In terms of business areas, the government aid was highest with 50.1% in the case of health and welfare area, followed by 19.4% in private donations. In comparison, the income of those in the other areas consisted of 31.5% in government aid and 28.1%

in usage fee. While the proportion in the total income is not that high, the membership fees of third sector organizations in the other area almost doubled that of the organizations in the health and welfare area.

〈Table 7〉 Third sector income structure by business area

	Total annual income	Membership fee	Support from parent corporation	Private donations	Service usage fees	Government aid	Other income	Other
Total	100.00	7.21	7.48	12.86	19.91	38.17	5.35	9.76
Other areas	100.00	8.99	8.64	9.18	28.06	31.47	5.57	8.50
Health and welfare area	100.00	4.04	5.41	19.43	5.39	50.09	4.96	12.01
Subtotal								
▶ Health area	100.00	6.26	11.80	22.73	4.95	32.87	4.35	21.44
▶ Welfare area	100.00	3.98	5.24	19.35	5.40	50.53	4.98	11.77

Source: Cited from Daemyung No et al. (2008)

As seen from above, several third sector organizations’ heavy reliance on government aid is not a new problem since social welfare corporations gradually took up consignments from the government with the increase in welfare expenses. Furthermore, unfavorable conditions such as the economic crisis in 1997, credit crunch in 2003 and the global economic crisis from the US sub-prime mortgage collapse in 2008 lead to expanded government expenses for the vulnerable, which may also have impacted the increase in the income of third sector organizations in the social welfare area. Similar findings were made by a research on the size of employment and economy of the third sector in other countries. In other words, third sector organizations providing services to the vulnerable may tend to grow during economic downturns (Clifford & Rajme & Mohan, 2010). Another distinctive fact to be considered is that the

increase in the government consignments to nonprofit private organizations, with the purpose of creating jobs and expanding social services, may also have contributed to increased government aid to third sector organizations.

While it may be accepted differently based on how the issue is understood, the fundamental issues of identical service providing processes, provider-oriented servicing, and third sector organizations being subjugated to the government still linger from not having a democratic governance for government consignments. Thus, third sector organizations should consider ways to keep a balance between the consignments and their mission rather than simply focusing on carrying out the consignments.

4) Giving and Volunteers in Third Sector: Role of Government?

The most critical element impacting the autonomy and sustainability of the third sector in Korea is mobilization of private resources. In a recent study, individual donations were found to be much higher than corporate donations as of 2008 with 62.1% and 37.9% of overall donations, respectively, according to the National tax statistical year book.⁷⁾ The study goes further to specify individual donations made to religious groups by comparing the estimations based on the survey on household trends by

7) It should be noted that the paper by Wonik Son shows a dramatic reversal between 1999 and 2001. Individual donations, recording 29.3% in 1999, drastically increased to 63.8% in 2001. The figures should be looked into in more detail. It must also be noted that many researches published in 2002 pointed out a directly opposite situation of individual donations remaining at merely 30% level.

Statistics Korea (36.9%) and the National Tax Service data (86.3%) (Won-ik Son, 2010). Existing studies estimated that the donations to religious groups exceeded 80%. A cautious interpretation of the result is that the high rate of individual donations in Korea requires an in-depth analysis since the rate very low, if excluding the donations made to religious groups. Therefore, efforts should be made to maximize individual donations in order to secure the autonomy of these organizations.

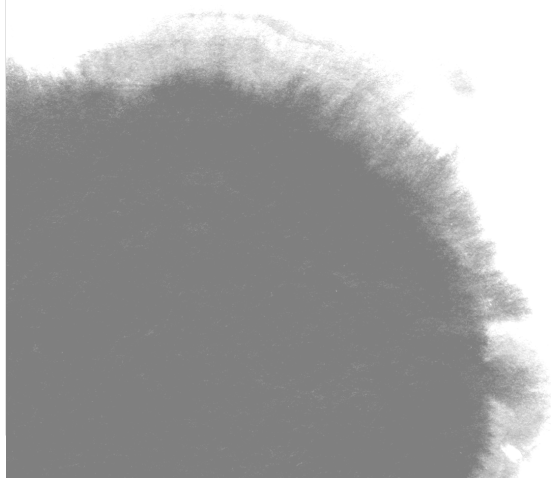
Another issue in Korea is the size and significance of volunteers. In spite of various researches on this subject, most are not sufficiently reliable since they fail to identify whether the number of volunteers reported by the organizations are true; how substantial are the roles served by volunteers; and whether third sector organizations have the system to effectively utilize volunteers.

What is more serious is that the forecast and preparations regarding the operation of third sector organizations through volunteerism are not sufficient. The changes in the population structure and the income level and human capital of potential retirees will definitely have a huge impact to third sector organizations. Increase in professional resources that would live on pension after retirement will influence the paid labor model of third sector organizations. Additional considerations should be made on the fact that the high rate of volunteerism in school-age children does not continue afterwards. Compared to other countries, the volunteering system in Korea is close to a one-off event. This is why third sector organizations in Korea should seek ways to utilize volunteerism.

If these prospects are valid, a fundamental research should be made on the paid labor model upon which third sector organizations in Korea are heavily reliant. It is well known that young paid workers play important roles in these organizations and are impacting the advancement of the third sector. On one hand, 'young' paid workers make the organizations more dynamic compared to those in other countries in terms of business planning capabilities, which is also a point agreed by third sector personnel of other countries. On the other hand, however, the dependency on profit-making businesses or government consignments is growing from not having the income structure to resolve the burden of personnel expenses. The so-called 'professionalism' weakens the link between these organizations and the local community. Ironically, the dynamics of the business is based on financial dependency to some extent.

In the end, a new model combining the paid labor and volunteering models should be generated to resolve this issue, in different forms depending on the business area and organizational type. Another vital task of the third sector as a whole is to ease the burden of fixed expenses and expand voluntary participation by utilizing human and financial resources of the local community, which can only be resolved over a long period of time and through the active willingness and efforts of the third sector.

04

**Third Sector Policies in
selected countries**

CHAPTER 4

Third Sector Policies in selected countries

Since the 1990s, major western countries carried out various third sector policies, primarily due to the gradual changes of welfare states. In the process of transferring major social services to the private sector, the role of private profit and nonprofit organizations became relatively important. As such, transfer of social services to private organizations signify the changes in relevant policies toward a new governance.

1. Third Sector Policies in France: vers l'Economie Solidaire?

France made consistent attempts to carry on the spirit of 'associationnisme' and reform the institutionalized social economy. The concept of 'économie solidaire,' or solidarity-based economy, appeared during the process while the term 'third sector' has been limitedly used in the academic scene. It was from the aversion to the third sector's emphasis on philanthropy, based on charity and volunteerism, and its restriction of the scope to the nonprofit sector. On the other hand, social economy considers all human should have equal rights and

emphasizes the spirit of solidarity based on voluntary association of individuals.

In France, where mutual aid societies complemented social insurance programs as the partner of the welfare state with the general law on cooperatives coming into force in 1947, the social economy started to be acknowledged by the government when the 'state council for social economy' (later renamed to the 'representative of social economy related departments') was set up in 1981. The socio-economic sector also has a representative in the 'social economic committee,' an official institution for voicing opinions to the government on political, social and economic areas. In 2000, the 'secretary's office for social solidarity economy' was newly formed and 300 local council members in charge of the matter was elected in the local election in 2001. After the local election of metropolitan areas in 2004, 15 metropolitan governments adopted local policies for the social solidarity economy. At present, social solidarity economy in France is no longer at an experimental stage and has been embedded in local policies.

Social enterprises in France are also rooted in a strong tradition of social economy and were institutionalized in the form of 'SCIC (Société coopérative d'intérêt collective; Cooperative society of collective interest) in 2001, highly contributed by labor cooperatives. The CGSCOP (Confédération Générale des SCOP; General Confederation of Production Cooperatives) prepared the legal framework appropriate for social enterprises based on its experience of setting up various experimental forms of cooperatives with social purposes such as the 'job creation cooperative' and

'business incubating cooperatives.' Finally in 2001, an open cooperative structure in the form of SCIC was devised to serve the common interests of the community with the participation of the workers, users, volunteers and local governments and the French government enacted this as the law on social enterprises.

The French government started nurturing the third sector in earnest in 1997 with the execution of a 'new service - youth jobs' policy by the coalition government of the Socialist Party, Green Party and the Communist Party. The new service had an additional character of 'social usefulness,' out of needs not satisfied by the state and the market. The first time the new organization of the third sector was mentioned in law was in 1998 in Clause 4, Article 11 of 'La loi d'orientation relative à la lutte contre les exclusions (The Framework Law on the Fight against Exclusion).' The third sector was defined as an organization characterized by the combination (commerciality + sociality) of its activities. The law, however, was geared towards integrated labor organizations for aiding self-support than for comprising all third sector organizations. It also restricted the legal status to nonprofit institutions, excluding many integrated labor organizations that acquired corporation status for commercial purposes. In July 2001, the law was introduced as a result of criticisms on the issues of 'La loi d'orientation relative à la lutte contre les exclusions.' The promotional measures of the central government in the 2000s took a new turn of being facilitated through local policies with activists from civil social groups entering into the institutional system nationwide.

A more specific and successful case is the experiment on social economy in the NPDC (Nord Pas de Calais) region in northern France. NPDC, also known as the 'land of solidarity and initiative,' is one of the largest region among 26 metropolitan regions in France, located far north, neighboring Belgium. The local council requests the regional office of INSEE to investigate and announce the size of its local social solidarity economy on an yearly basis. As of 2008, there were a total of 25,000 social solidarity economy organizations in the region occupying 14% of the local market share. The total number of full time employees was 219,000, accounting for 11% of the profit sector and public interest-oriented private sector, apart from the public sector. In terms of legal status, the social solidarity economy mostly consists of cooperatives, mutuels and associations. Associations, occupying the highest rate at 85% in the region, are acknowledged as an indispensable medium between the state and the individuals not only in this region alone but also throughout the lives of the French.

The social economy in the region has been facilitated relatively recently. Everything started to change with ARET (Assies regionales; Forum for regionally employed labor) in 1996. Around December 1993, criticism began to pour in on the inconsiderate budget deliberation process of the local council for resolving employment issues. The chairman of the local council decided to adopt an amendment, establishing a plan to hold a large-scale discussion for various local community members to participate in to prevent conflict of interests on the economy, social issues and the environment. An unprecedented public discussion

was conducted in France from May to November 1994. The decision to organize a forum was close to an adventure since it not only required many participants and much persuasion to reject fatalism and aim for innovation but also an appropriate environment for the participants to come up with new ideas and actual implementation. Above all, the suggestions from the participants must be put into practice not to disappoint them. The forum had been carried out for 4 months by around 1,000 people forming a total of six teams. Participants included enterprisers, civil group members and the persons in charge, labor unions, office workers and retirees, unemployed and local council members. The organizers of the forum set the principles that participants should express their opinions as individuals and not as representatives of their organizations.

One of the remarkable project devised by the forum was the program called 'the unemployed as an economically active population.' The program was financed by the FRIS (local community innovation fund), jointly organized and run by a group comprised of the unemployed and the local council. The fund brought about heated disputes. Many people including labor unions opposed the idea of accepting the group of unemployed as a second party and accept its mandate to jointly run the fund. One purpose of the program was to create, support, and strengthen an initiative friendly environment. The concept of 'social innovation' signifies differentiation from existing activities for the unemployed and the key criteria for selecting the project was not 'for them' but 'with them.' A total of 133 projects proposed by 30 local civil groups received support from

1996 to 2001. The overall project was classified into four categories: 37 permanent information organization for the unemployed; 36 organizations for providing opportunities of forums, exchange and meetings; 34 vocational training and workshop organizations; and 36 group newspaper, radio broadcasts and video documentary productions. In addition, an FPH (resident participation fund) based on similar principles was established. The fund has been experimented in various regions and managed at the overall regional level since 1996. A charter was enacted and agreements were entered into between each operational committee and local councils. The purpose of the fund was to create a new spirit of citizenship and utilize 100% of the capabilities of the people as leaders in developing the region and the cities. The fund particularly contributed to organizing civil social group activities, identifying new people in the region and collectively planning local businesses. It drew the attention of the government and the experience was shared throughout the nation in the <committee for urban policy related departments>. The six-year agreement (from 2000 to 2006) between the state and the regions regarding DSQ (village society development) and DSU (urban society development) came to include the financial resources to carry out this business. Since then, FPH was financed by the metropolitan and local governments and a total of 70 funds were operated nationwide with the asset amounting to EUR 760,000 by the year 2000.

2. Third Sector Policies in Germany: Civic Engagement

The third sector in Germany played an active role in social policies, on the principle of 'assistance.' During the transitional period from the 19th to the 20th century, churches focused on activities to seek regional-level resolutions for various social issues and desires arising from industrialization. Later, associations formed 'Wohlfahrtsverbände (umbrella groups)' at the central level to provide health and welfare services, becoming an important partner of local governments, state system and social insurance. Today, third sector organizations are providing 50% of social and hospital services with the public sector providing 80% of their finance. During the 'Red-Green Coalition' period from 1998 to 2006, the third sector in Germany marked a turning point. An official report named the <Future of Civic Engagement>⁸⁾ by the parliamentary committee was published, drawing interests from the public and the third sectors trying to overcome all forms of social exclusion and discrimination including the culture, regeneration of provincial downtown, child care services and labor market integration. This led to active discussion on foundations, citizenship of enterprises, role of social responsibilities of enterprises and consumer movement and rights.

The key point of the <Civic Engagement> policy is to

8) Buergerschaftliches Engagement in German. Engagement is a French word meaning promise, pledge and participation. It refers to the attitude of engaging in the society, i.e. the view toward existence or way of life. Engagement in the political sector is expressed as the social participation movement of the intellectuals, including political demands.

reinforce the third sector and support volunteerism activities. The policy, resulting from the <Civil society and participation> project conducted by the parliamentary investigation committee around 2000, laid the foundation for a new governance among social contract, the state, for-profit businesses and the third sector. The first comprehensive evaluation on the policy ten years later suggests an interesting prospect for the lack of democracy and social discrimination in western countries. Although the projects for the civil society did not make a fundamental difference to social political organizations in Germany, they succeeded in establishing various infrastructures and expanding promising political practices to the overall society.

The establishment of a federal network for engagement was one of the specific measures recommended by the committee to carry out innovation policies. In June 2002, 31 central committee organizations under the <International Year of Volunteers (2001)> got together to form the <BBE (Bundesnetzwerk BURGERSCHAFTLICHES Engagement: Civil engagement federal network). The network consisted of small groups under ten subjects: ① legal and organizational infrastructure of civil engagement, ② development of the civil society at the regional level, ③ future of volunteerism, ④ role of civil engagement in welfare states, ⑤ engagement of immigrant groups, ⑥ training and qualification improvement program of civil engagement and ⑦ by civil engagement, ⑧ relationship between populational change and engagement, ⑨ development of citizenship and engagement awareness in enterprises, ⑩ establishment of the European civil society through civil society networks in each country.

The network continued to expand since 2002, amounting to 220 organizations nationwide and hundreds of millions of participants at present. If the civil engagement policy attempted the innovation of the state and the society with the purpose of strengthening the civil society, the civil society must deal with the task of showing its capabilities to resolve the specific issues of the society. It has the obligations to prove what resources the civil society has in the areas of population aging, immigration and social integration, mass unemployment and separation of the economy and society and what potentials do the participants have. However, some organizations avoid public discussion out of fear or repulsion to being used as a means of state policies, leading to criticisms that they refuse innovation to maintain the status quo. Substantial civil society supporting policies cannot be implemented through one-off programs or temporary measures. They can be implemented by establishing the infrastructure of the organizations, associations, networks and groups and the effects can only be measured in the long term perspective.

3. Third Sector Policies in the United Kingdom: From Social Enterprises to the Third Sector?

U. K. is a country where the term 'social enterprise' is most commonly used. The government recognizes it as a powerful tool to fight against social exclusion and has been carrying out active policies to foster its development. In 2002, the government organized the 'Social Enterprise Unit'

under the Department of Trade and Industry (DTI) and published <Social enterprise: a strategy for success.> After two years of mapping, the government institutionalized social enterprises in the form of 'Community Interest Company (CIC)' in 2004. Growing interests in social enterprises naturally lead to interests in various forms of third sector organizations because since organizations authorized as social enterprises were mostly those active in the third sector such as cooperatives, friendly societies, volunteering organizations, charity groups, and company limited by guarantee. Accordingly, the U.K. government set up the Office of the Third Sector (OTS) under the Prime Minister in 2006 to systematically establish and execute third sector promotion plans.⁹⁾ OTS defines the third sector as an area with the common nature of 'nongovernment organizations led by values and reinvest surplus for social, environmental and cultural purposes,' such as volunteers and community organizations, charity groups, social enterprises, cooperatives and mutuals. Thus, the third sector in the U.K. is similar to the concept of social economy.

All government departments must submit the Public Service Agreement (PSA), comprising of the plans and strategies for the period from 2008 to 2011, and the major purpose of PSA21 is to nurture and promote various strategies for the development of the third sector. 'Compact' is a discussion group of the government and third sector organizations and its decisions are shared among and applied by most government organizations and the third sector. In addition to the OTS, senior civil servants of

9) The social enterprise team is later transferred to OTS.

government departments are assigned as 'champions (spokesperson for the third sector)' to cover third sector related agenda. Local governments have Local Strategic Partnerships (LSP) and enter into Local Area Agreements (LAA). Each local government must have strategic LSP with third sector organizations and the partnership must include a third sector representative. Moreover, each LSP must create LAAs specifying agreements on target businesses in the local community available for the third sector to participate in. The government provides 188 National Indicators (NI) on the priorities to be conducted by local governments. The LAAs of local governments must include at least 35 NIs, of which NI6 and NI7 are on regular volunteering and on activities to create the environment for nurturing the third sector, respectively. Comprehensive Area Assessment (CAA), which came into force in April 2009, is an indicator consisting of orderly stages to evaluate the priorities of policies of each region.

Businesses either conducted by or linked with the OTS are as follows: First is the provision of subsidies, loan support and relevant services. OTS supports the Funding Central webpage by financing working capital for the site, which consists of comprehensive information on around 4,000 types of aids, local subsidies and consignments by the government, nongovernmental institutions, local governments, charity groups, foundations and EU fund. OTS also runs a specialized 'Risk Capital Fund' to support various third sector organizations, mainly financing the initial stages of social enterprises. Second is the provision and innovation of public services. The U. K. government

formed committees for the development of the third sector throughout the nation and supported programs to improve the understanding of 2,000 committee members of the public sector on the usefulness of the third sector. These committees identify the services required by local communities, discuss ways to implement these services, consign and provide determined services and evaluate and assess the services. They also came up with 'Social Clauses' for achieving the social purpose required for consignment and provision. Third is the volunteering promotion business. The government is running the 'V Program' to promote volunteerism among the young generation from age 16 to 25 and the 'Volunteering for All (VA)' program for all the people. In particular, volunteering related guidelines and relevant materials are provided and the Queen's Award is granted to organizations with outstanding capabilities in utilizing volunteers. The Queen's Award was established in 2002 to commemorate the Queen's Day and has been awarded to around 600 organizations at present, including to 79 organizations in 2008.

4. Third Sector Policies in Japan: Efficient Tax Credits?

The third sector in Japan refers to organizations jointly invested by local governments and the private sector to carry out regional development businesses. The historical background to the third sector was to resolve the issues of overcrowding population and depopulation from hyper growth in the postwar period. In Japan, the organization

most similar to the third sector in the US and Europe the is NPO (Nonprofit organization). The legal basis for the corporation system in Japan goes back to 1896 when the Civil Law was enacted. The law regulates public corporations in Article 34 and for-profit corporations in Article 35. The legal regulations on public corporations including NPO, which lasted for over a century, started to change with the enactment of the nonprofit organization promotion law in 1998, intermediate corporation law in 2001 and three laws regarding the new public corporation system in 2006.

The characteristics by corporation type are shown in the following table. Those with the purpose of common interest and can be classified as the third sector include public corporations and foundations, NPO corporations and recognized NPO corporations.

The Nonprofit Activity Promotion Law (hereafter NPO law) was enforced in December 1998 to grant incorporation to nonprofit activity groups through a simple process to promote the sound development of nonprofit activities as the voluntary social contributions of the people and to contribute to the enhancement of public interests. Organizations incorporated according to the law becomes the subject with the capacity to enjoy rights regarding entering into agreements and registering lands under the organization's name and is granted the rights to deal with the relationship of rights and responsibilities under the organization's name. In comparison, 'recognized NPO corporations' are recognized by the Commissioner of the Japanese National Tax Agency selected among NPO

organizations, with an appropriate organizational structure and business activities and contributing greatly to the enhancement of public interests, that satisfy certain qualifications. The system was adopted according to the amendment of the Tax law (law for partial amendment of Special Taxation Measures Law and others) in 2001.

The main difference of recognized NPO corporations from NPO corporations is tax deduction. Unlike general NPO corporations, recognized NPO corporations are exempted from income tax for corporate donations as well as individual donations, and also, the inheritance tax for inheritance donations. There also are deduction benefits for funds considered as donations, e.g. profits from revenue-making businesses used for nonprofit purposes are considered as donations and available for deduction to a certain range. However, an effective term of recognition¹⁰⁾ is applied to these corporations. In summary, four exceptional measures on taxation applied to recognized NPO corporations are: ① Special measures for individual donations to recognized NPO corporations, ② Special measures for corporate donations to recognized NPO corporations, ③ Special measures for inheritance donations to recognized NPO corporations, and ④ Considered donation system of the recognized NPO corporations.

The implications of Japan's recognized NPO corporation system are as follows: Existing NPO corporations in Japan were criticized for focusing too much on providing social

10) The effective term of recognition initially started with 2 years but has been extended to 5 years according to the tax law amendment in 2008. The new term of 5 years has been applied to corporations applying after April 1, 2008.

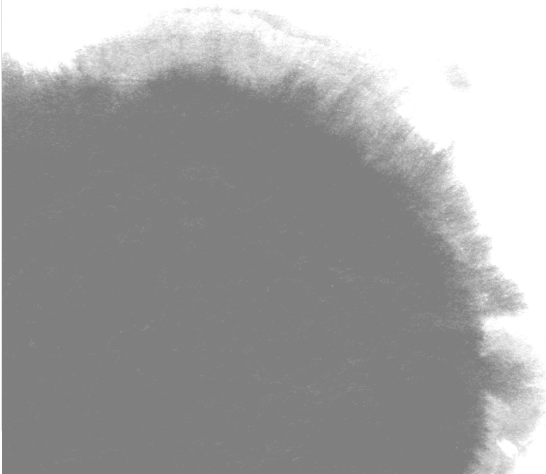
services that they failed to create citizenship. (田中弥生, 2009) Their income consisted of less than 10% in donations and membership fees but around 73% in working expenses from consignments of the government or local governments. The structure of business expenses accounting for most of the income source of NPO corporations result in several issues: First, growing dependency on government and local governments may hinder the autonomy and spontaneity of NPOs; Second, the competition among NPO corporations for consignment businesses are intensifying and resulting in financial weaknesses; Third, NPOs concentrate too much on consignment businesses and fail to perform their original mission. Since most consignments are from the government or local governments, NPO corporations may incline to passively accept the businesses rather than serve the role as representatives of the local civil society.

One of the lessons learned from Japan's case is that the policies should be focused on qualitative management of the third sector than on quantitative expansion. Although the income structure may not be an indication of every aspect, the recognized NPO corporation system is feasible in terms of providing a ground for preventing reliance on external institutions including the government and local governments through appropriate procedures such as special measures on taxation. Owing to the institutional structure, donations occupy a large portion of the income in recognized NOP corporations. As was mentioned earlier, Japan's recognized NPO corporation system requires strict criteria for recognizing and maintaining the qualifications regarding public interests of the corporation and transparency of

accounting while it provides special measures for taxation to make it easier to raise donations. Recognized NPO corporations that comply with strict rules and have strong nature of public interest are able to build up trust with the donors and such trust lead to more donation. Special measures for taxation on donations are also important factors for increased donations. At least the recognized NPO corporations in Japan are dealing well with the issues of dependency and governance by expanding the proportion of donations. This may suggest a model providing institutional guarantees of the independence and autonomy of third sector organizations.

05

Third Sector Policies in Korea: Problems and Policies Suggestions



CHAPTER 5

Third Sector Policies in Korea: Problems and Policies Suggestions

1. Reform for the Legal Status of Third Sector Organizations

The laws and institutional systems of the government have a large influence on the economic size, decision-making process and business handling procedures of third sector organizations. It is because the government not only provides direct support, including corporate tax deduction, tax exemption for donations, budget support and business consignments, but also exercises influence through various measures such as permission and approval of businesses and determination of business areas. Through various laws and systems, the government is providing the basis for the growth of the third sector, but is also exerting substantial influence on the operation. The criteria for clearly distinguishing third sector organizations are necessary for the government to support or give permissions or approval to the organizations. There are various laws and regulations regarding third sector organizations in Korea as well.

〈Table 8〉 Third sector-related laws and regulations in Korea

	Enactment	Recent amendments	Remarks
Act on the Establishment and Operation of Public-service Corporations	1975,12,31	2008,3,14	- Regulates education, scholarship and charity as essential businesses - Regulations of each department
Assistance for Nonprofit, Nongovernmental Organizations Act	2000,1,12	2008,2,29	- Nonprofit corporations (excluding religious corporations)
Religious groups (relevant law not available)			- Nonprofit corporation according to the Framework Act on National Taxes - Registered as 'religious group' in cities, gun and gu offices
Cooperatives Act (parent law not available)	-	-	- Agricultural Cooperatives Act - Fisheries Cooperatives Act - Tobacco Producers Cooperatives Act - Small and Medium Enterprise Cooperatives Act
Credit Unions Act	1998,1,13	2010,5,17	- Nonprofit corporations
Mutual Aid Association Act	-		- Military Personnel Mutual Aid Association Act - Police Mutual Aid Association Act - Science Engineers Mutual Aid Association Act - Korea Firefighting Mutual Aid Association Act - Korean Teachers' Credit Union Act - Korea Local Administration Mutual Aid Association Act - Korea Local Finance Association Act
Consumer Cooperatives Act	1999,2,5	2010,3,22	
Social Welfare Service Act	1997,8,21	2008,2,29	- National Basic Livelihood Security Act - Child Welfare Act - Welfare of the Aged Act - Welfare of Disabled Persons Act - Mother and Child/Father and Child Welfare Act - Infant Care Act - Act on the Prevention of Sexual Trafficking and Protection etc. of Victims - Mental Health Act - Act on the Punishment of Sexual Crimes and the Protection of Victims Thereof - Act on Special Cases concerning the Promotion and Procedure of Adoption - Act on Livelihood Stability and Memorial Services, etc. for Former Comfort Women Victims drafted into the Japanese Forces under Japanese Colonial Rule - Community Chest of Korea Act - Act on the Promotion and Guarantee of Access for the Disabled, the Aged, and Pregnant Women to Facilities and Information - Act on the Prevention of Domestic Violence and Protection, etc. of Victims - Special Act on Improvement of Public Health and Welfare for Agricultural and Fishing Village Residents - Vitalization of Food Contributions Act - Medical Care Assistance Act
Social Enterprise Promotion Act	2007,7,1	2010,6,4	- Ordinance of local governments
Establishment, etc. of Microfinance Foundation Act	2007,8,3		- Nonprofit corporations

The table above shows that the various systems defining third sector organizations in Korea can be characterized in four categories: First, there exists a law encompassing third sector organizations as a whole, defining public interest corporations (corporations and foundations) and nonprofit nongovernmental organizations. This law is most comprehensive in the fact that it can be applied to nearly all third sector organizations and defines appropriate support. Second, a parent law defining cooperatives is not available, and thus, cooperatives are granted legal status through separate legislations such as the Agricultural Cooperatives Act. However, opinions vary on whether respective cooperatives should be recognized as third sector organizations. Third, there exist some sort of parent law such as the Social Welfare Service Act in the case of social welfare corporations providing welfare services. These organizations are therefore relatively official compared to other third sector organizations. Fourth, organizations engaged in profit-making businesses are granted independent legal status similar to the case of western welfare states, i.e. according to the Social Enterprise Promotion Act. Social enterprises are granted the legal status through the certification process of the Ministry of Employment and Labor. It implies an exclusive use of the 'label' of a social enterprise and impacts the behaviors of third sector organizations.

These system, however, requires revision in several aspects. First is the need to come up with a new system for third sector organizations to expand the channels for raising donations from individuals and enterprises. The basis for

sustainable growth must be set up by reinforcing the benefits of tax deduction and exemption than through increased government aid. This is to expand intermediary organizations that lie between the Act on the Establishment and Operation of Public-service Corporations, defining foundations and corporations, and the Assistance for Nonprofit, Nongovernmental Organizations Act. While it is difficult to exclude the risk of corporations that cannot normally function, such risk may be overcome by setting up a more neutral and impartial institution than the government-led certification process. Secondly, a comprehensive system should be adopted to regulate third sector organizations engaged in revenue-making businesses. Stronger government support is required for those participating in various profit-making businesses and employing the vulnerable in order to diversify the income of third sector organizations. Third, measures should be established to expand the scope of qualifications to carry out government consignments and promote competition by evaluating the achievements. The government should set up the qualifications for executing consignments by department and by business and induce competitive bids among qualified nonprofit nongovernmental organizations. This refers to a system with an open structure regarding qualifications for application, which evaluates the organizations according to their achievements. A good example may be the US' case of regulating nonprofit nongovernmental organizations to go through group registration via the web to conduct government consignments.

2. Evaluation of the Third Sector or Social Economy

Social economy is drawing more attention as an important strategy to fill the gap from failure of the market and the state, and is regarded as a means resolve different social necessities of various community members. The expansion of social economy is receiving attention from many interested parties for the achievements. In particular, government support policies and many social contribution funds for social enterprises are increasing the tendency to evaluate the achievements of these enterprises in the perspective of cost effectiveness or return of investment. In Korea, the Ministry of Employment and Labor, mainly responsible for social enterprises related policies, is in the process of developing Social Return on Investment (SROI) as an evaluation tool for social enterprises. However, there are rising disputes over evaluating the activities of these enterprises, considering that social economy is based on the autonomy of the civil society and is creating social, economic and environmental value for local community members dealing with various social needs.

In case it is possible to properly evaluate the value of various output from socio-economic organizations, the operation of these organizations will become more efficient. Thus, the internal requirement for evaluating the values of social economy should be reinforcing the management capabilities to improve the effectiveness of organizational activities while the external requirement for social economy organizations should be proving the transparency of its

responsibilities to the interested parties. Measuring and communicating the social, environmental and economic effects of these organizations make the members of the organization and the interested parties constantly aware of the importance of organizational activities and increase their devotion and loyalty.

France has been using the societal balance sheet for evaluating social economy organizations in terms of internal and external social utility of the organization. The method comprises of institutional evaluation of the efficiency of organizational activities on one hand and organizational evaluation at a more strategic level on the other. Specifically, it consists of nine evaluation fields under the following three areas: ① economic activities, ② labor and social relationship, and ③ sustainable development of the environment. In the U.K., social accounting and Social Return on Investment are used to evaluate the values of social economy organizations (Spear, 2010). Among various manuals on social accounting developed by different organizations, the manual by the Social Audit Network (SAN) is most widely used. The New Economics Foundation (NEF) also came up with their own SROI manual by combining the SROI developed by REDF of the US and complementing the weaknesses of social accounting. SROI measures the benefits produced from social economy organizations by converting the benefits to monetary value, which also lead to complaints from social economy organizations over irregular quality of the reports and distrust of the results. Italy makes social enterprises including social cooperatives to record and keep the

financial balance sheet and the societal balance sheet in the public ledger. The societal balance sheet comprises of social benefits produced by socio-economic organizations. Organizations express their social benefits in different formats since there is no set form for societal balance sheets.

Each evaluation tool has merits and demerits. Social accounting has an advantage of clearly defining the organization for the interested parties and enables the evaluation and review of the activities of the organization as a whole, substantially strengthening organizational management capabilities. The weaknesses include a considerable amount of time and efforts required to execute social accounting; few cases to benchmark the nature of social accounting, requiring individual plan for each organization; and separate considerations for strategic management strategies of the organization. In the case of societal balance sheets, it is designed to manage the performance of strategic business management for achieving the target of the socio-economic organization, and thus, enables the organization to focus on accomplishing its goal. However, it has the limitation of restricting the consideration on social, economic and environmental products created from a complex purpose and various activities of socio-economic organizations. Lastly, social return on investment is convenient for its quantification method of converting various benefits of socio-economic organizations into monetary value. In particular, financial providers as public institutions or donors prefer this evaluation tool for the evaluation of changes in quantified monetary value in the aspect of clear cost effectiveness. On the other hand, it

also raises constant skepticism for the restriction on various social values difficult to be translated into monetary values and for the risk of impractical quantification of which the feasibility is hard to prove in reality.¹¹⁾

The issues raised over the evaluation on social economy recently are as follows: First is the tension around the discord of the public policy perspectives and normative basis of the social economy, which sometimes occur in reality. Public policies are executed top-down to carry out the objectives, incorporating social economy organizations into the government's public policy communication structure. There is a risk of financially weak socio-economic organizations adapting to the public policy communication structure to acquire resources for survival. The possibilities of such institutional adaptation may dismantle the diverse incentive structure of the social economy to satisfy the needs of local communities through innovative methods. Second, many social economy organizations are under extreme pressure from whether to pursue economic values or social values. In some cases, one value must be given up for the other because they oppose each other. Some opts for a gradual approach, pursuing social values based on the financial stability of the organization by pursuing economic values. Social and economic values do not play zero-sum games, and thus, can be combined together (SEKN, 2006). The existence of social economy organizations must be justified and recognized based on the values and efficiency

11) Activists of social enterprise supporting institutions in the U.K. pointed out the quality issue of SROI reports, costing £ 5,000, and the difficulties in proving the feasibility in the community and expressed concerns that SROI will literally become a money-eating machine feeding consulting agencies.

of these organizations, which can only be achieved through a balanced approach of social and economic values. However, many of these organizations do not have clear missions nor carrying out concrete activities to accomplish their goal. This makes it difficult to expect value assessments on a balanced approach of social and economic values. Third, many socio-economic organizations point out that a considerable portion of qualitative evaluation is restricted in the case of quantitative evaluation on the benefits created. The quantitative evaluation method of measuring the precise quantity has limitations in measuring non-monetary or non-practical welfare or various social cultural changes and qualitative evaluation is recommended to complement such weakness (田中弥生, 2009). Although qualitative evaluation is not preferred in terms of convenience and objectivity, it is necessary in a complementary view of a balanced approach of quantitative and qualitative evaluation in order to assess the effects of social changes related to a wide variety of issues of the community.

The direction for evaluating the values of social economy organizations should be designed to constantly improve various social changes created by social economy organizations and to motivate the expansion of social relationship network. Although specific evaluation tools can be designed for the purpose of the evaluation, it must be noted that standardized evaluation tools may restrict the various values of social economy organizations.

3. Socio-Economic Autonomy of the Third Sector

The Social Enterprise Promotion Act of Korea was enacted in December 2006 and took effect on July 1, 2007. There were 406 authorized social enterprises as of end October 2010 under the law. At the time of enactment, civil society groups supporting self-support and job creation projects for the vulnerable formed the 'Coalition of civil society groups for the development of social economies' (later renamed the Social Economy Coalition), actively participating in the legislation process in the critical perspective in order to implement social enterprises predicated on social economy. With the enactment of the law, however, the social economy sector rather contracted from stronger government influence on social enterprises. Even though the social economy sector led discussions on social enterprises and conducted supporting activities and training prior to the enactment, it not only lost leadership during the legislation process from political reasons but also created doubts over social enterprises from within.

In the case of Europe, where the social economy is advanced, the role of existing social economy organizations as well as the institutional factors are important for the growth of social enterprises. Civil groups experimented and established social enterprises for around 20 years since the 1970s, eventually institutionalizing the enterprises. They were able to carry out independent activities with the support from social economic organizations already established within the system. Especially, various solidarity financial

organizations based on initial capital financing of credit unions and cooperatives played a critical role in facilitating the projects of civil society organizations and supplementing the shortfall of institutional support. In the US, social entrepreneurs were actively promoted since the early 1980s in cooperation with nonprofit organizations, with the support from foundations formed by entrepreneurs based on Christian ethics. Starting with the Ashoka Foundation by Bill Drayton in early 1980, many foundations have been established and are currently providing advice and financial support to around 2,000 social entrepreneurs in the world.

The circumstances are different in the case of Korea, where civil society groups are isolated, from insufficient awareness of the third sector and traditional social economy organizations seriously attached to the government. In terms of nonprofit nongovernmental organizations, society contribution projects have been carried out since the early 2000s by large-scale enterprises, whose activities in the early stages focused on supplementing the insufficient institutional support. Since the enactment of the Social Enterprise Promotion Act, most companies preferred establishing social enterprises themselves to provide support through partnerships with the civil society, preventing the inflow of private resources to the civil society. The current situation for Korea's civil society groups makes it impossible for them to set up an independent support structure without being incorporated in the government's service provision system since they do not have sufficient resources to mobilize.

Moreover, the support to social enterprises are made directly and not through payments of costs for the services

provided. Such structure not only restricts service providers but also prevents the resources from being equally distributed. As a result, civil society groups performing various social enterprise-related projects are restricted in their scope of activities and from sufficient resources. It is hampering voluntary and active participation of the civil society as well as the growth of both the social enterprises and the civil society sector. While measures such as supporting personnel expenses under the Social Enterprise Promotion Act may induce the establishment of these enterprises, it also has a reverse effect of systematically weakening the structure of social enterprises that are supposed to accomplish self-reliance in the market. This risk has already been predicted in the discussion stage of the law.

Based on the understanding of the issue, social enterprises and civil society groups are becoming increasingly aware of the necessity to reduce the dependency on government subsidies and come up with strategies to establish enterprises protected and developed by community members. They are seeking ways to transform themselves to utilize community resources while contributing to the development of the community. The recent movement within social enterprises in some areas to form a community fund or a social solidarity fund is a meaningful attempt to prepare self rescue measures for reducing financial reliance on the government and securing business continuity.

The following are suggestions regarding support measures for the private sector to foster third sector organizations. First of all, there is the issue of civil society organizations'

philosophical basis and awareness of their identity. Social enterprises are explained in different terms and accepted in various ways in reality. Therefore, civil support groups wishing to properly support the enterprises should be clear about the social and economic purpose they want to achieve through social enterprises. The support will prove effective only when the principles and details of the support are established based on such understanding and are shared with the organization receiving the support. Second, it is necessary to jointly seek ways for raising financial resources and mobilizing other resources. At present, most organizations in the civil society sector providing support to social enterprises are merely acting on behalf of the government to carry out government projects with government funds. However, government aid is limited and may hinder the natural growth of social enterprises in the long run. Thus, civil support groups should reject the current government consignment-oriented activities and exert efforts to set up an independent support structure through self-financing. The first step in identifying independent financial resources may be by coming up with measures to expand and improve the projects to form community funds and mutual cooperatives in some organizations and communities. Third, various experiments should be conducted on solidarity finance. As the case of insufficient operating capital for social enterprises, the most critical infrastructure for the development of social enterprises is the expansion of financial services for resolving financial issues. The active development of social enterprises in Europe owes to various forms of alternative financial institutions

including micro-credit, microfinance and solidarity deposit. The Social Solidarity Bank (SSB) of Korea, aiming for alternative finance, should develop various solidarity products to contribute to the financial stabilization of social enterprises. To this end, it is necessary to form solidarity investment funds using the employee ownership system in cooperation with labor unions as well as companies and to develop social banking based on the deposits of the general public. Fourth, it is necessary to identify measures for increasing ethical consumers. Seen from the experience of fair trade, securing a stable market through ethical consumer groups is required for social enterprises to settle down. Support to social enterprises accompany activities to organize the people and relevant experiences have been built up by many civil society groups in the process of establishing consumer cooperatives. What is needed at present is to spread this experience to the community members and ultimately throughout the nation to increase ethical consumers.

4. Public Support for the Third Sector

One point to be reminded of prior to the measures promoting the third sector is that, third sector organizations serve the function of surveillance and checking on the state and the market. Third sector organizations in Korea have been largely recognized as service providers but negatively perceived for their role of surveillance and control on government policies and enterprises. However, these roles are the reason for existence of third sector organizations and

cannot be separated from the role of providing services. Although these organizations should be distinguished from political groups, a worse situation is to bureaucratize or commercialize the organizations. Efforts should be made to lay the grounds for the organizations to stably conduct the tasks of advocacy of rights and service provision in the local community. It should be the fundamental direction for nurturing the third sector in the mid-to-long-term. This section will cover government support policies for promoting the third sector, especially focusing on the policies regarding taxation, promotion of volunteerism and creation of local jobs.

Above all, the government should make active use of the taxation system, particularly through income tax deductions, to improve the autonomy of third sector organizations than strengthening the management for direct support and selection. First, tax deduction benefits should be expanded to individuals and corporate donations to third sector organizations. The current taxation system sets a high barrier for donations to designated organizations and statutory organizations and is limitedly applied to specific sectors, preventing donations from being financed to diverse third sector organizations. Second, a structure for assessing the public interests is necessary for increasing the income deduction rate on donations, considering the characteristics of nonprofit groups in Korea. Government-led approval methods are not appropriate for limitations of conformity and possible intervention of arbitrary judgement considering the size and demands of third sector organizations. It is also not desirable to simplify the test on public interests either

since the size of benefits from income tax deduction may distort the effects. Therefore, a combined method compensating the defects of the Social Enterprise Promotion act in Korea and of laws regarding the U.K.'s Community Interest Company is necessary for establishing a new governance for testing public interests. Third, various support structure is necessary to effectively raise and distribute private donations, considering the functional division of third sector organizations. The fund raising role, currently concentrated to the Community Chest of Korea, should be allocated based on functional specialties to enable the distribution of donations to different socio-economic areas. For example, a third sector organization working to create jobs for the vulnerable needs a separate organization to raise funds to provide a more systematic support.

The government should also reinforce support measures to enable third sector organizations to utilize their own resources. A shift in paradigm is required in order to promote volunteerism. Policies for nurturing the third sector in Korea should take into account the changes in the people's demands for the third sector and the human resource supply structure of the third sector. Demands are diversifying in various fields and the services provided by the third sector should be differentiated and specialized according to the changes in the family and employment structures and increased welfare services. The public support system should also be prepared for possibilities of the third sector resources changing from wage-based expert resources to retirees unpaid or provided actual expenses. To be more specific, it is highly probable that the structure will

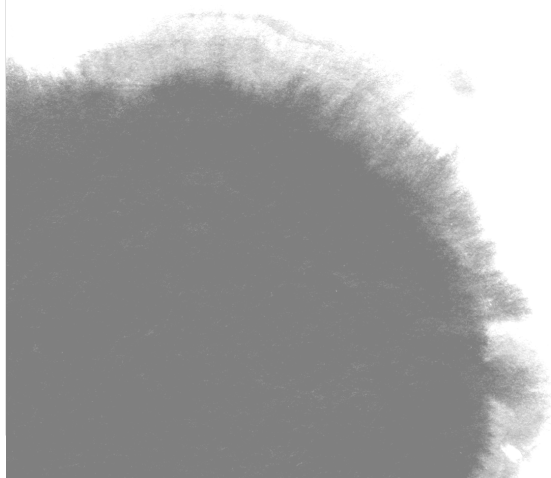
gradually change from the paid employee model to a volunteer model. Retirees in their 40s to 50s with expert knowledge are expected to enter into the third sector, already appearing in various forms of retiree organizations and their participation in other third sector organizations. Thus, a support system utilizing professional volunteers phase-by-phase must be established for third sector organizations. This can be linked back to the fact that the current paid labor model of third sector organizations are resulting in many difficulties in terms of costs. In the mid-to long-run, policy efforts should be made to expand the number of volunteers and reduce paid workers in third sector organizations. Second, a structure should be established for a systematic development of volunteering over the entire life cycle. This need has been triggered from the criticism that the current youth-based volunteerism has limitations for being a forced model. An appropriate inducement structure and support groups are necessary for the volunteering experience of school-age children to continue, referring to various examples of other countries. Third, the training system for volunteers should be improved. Volunteers receive basic and specialized training prior to participating in the businesses and such training highly contributes to improved service quality. Third sector organizations in Korea need various experience in many fields since simple support such as bathing services will gradually develop into specialized areas including financial services and business establishment.

Last but not least, the strongest government support for promoting the third sector is possible in none other than the

job creation and society development programs in local communities. Therefore, flexible support should be provided to organizations in charge of job creation to enable them to combine and carry out various businesses in the community. Currently, organizations providing employment to the vulnerable encounter difficulties in implementing a sustainable profit model. This is due to the weak capabilities in generating stable demands by combining various resources of the community and producing synergy effects from the support provided, as well as the low level of skills and poor business management. If third sector organizations are isolated like an island in the community, it will not be possible to constantly maintain the jobs. In this context, third sector businesses creating jobs for the vulnerable must be closely connected to community development projects and measures should be established to motivate the participants to constantly engage in the businesses.

06

Conclusion



CHAPTER 6

Conclusion

While the third sector may not be a perfect solution for all socio-economic issues, a powerful third sector serves a crucial role in the political, economic and social equality and the stability of the society. In this perspective, the long history of confrontation between the government and the third sector should be overcome for the third sector to commit to its duty as the second automatic stabilizer, absorbing various socio-economic impacts from failures of the government and the market. As was pointed out earlier, the third sector works as a shock absorber in the economic cycle and this function should be reinforced. Considering the circumstances of the Korean society, the primary task is to strengthen the social security structure of the public sector. It means that a stronger third sector should not be misused as a tool for avoiding the responsibilities of the public sector. Based on this assumption, promotional measures for the third sector have important significance as a policy issue for the Korean society.

However, measures for strengthening the support for the third sector do not 'automatically' maximize the effects because the effects are rather conditional. In case the third sector loses its autonomy and the capabilities to mobilize the

resources of the community, a completely opposite outcome may be brought about. Thus, this study covered the issues of the third sector in Korea and various aspects of the measures to resolve the issues. Several policy recommendations based on the research are as follows:

First are the measures to increase the inflow of resources to non-religious third sector organizations. The most fundamental problem of the third sector is the low level of development, along with the concentration of internal resources on specific purpose organizations. Adding to the small economic size of the third sector as a whole, even the limited amount of resources are not effectively distributed for various social purposes. Thus, it is necessary to come up with ways to expand the size of economy to a certain level by focusing on support policies for increasing donations or volunteering. Allocating resources to specific statutory organizations eligible for donations is not desirable in terms of functional distribution as well as expansion of the economic size.

Next is the institutional restructuring for the status of third sector organizations. The law for third sector organizations providing various services and creating jobs is applied in a very narrow and closed manner. Laws for self-support businesses and for supporting social enterprises do exist, but in an extremely restricted scope. Government support and the legislation should adapt to the changes of the third sector. A direct example is that, institutional reform have not been made regarding the organizations developing human resources and proving finance for the growth of third sector organizations. Support foundations of

the civil society and institutions such as micro-credit provide an important infrastructure for fostering third sector organizations. Existing policies have been emphasizing the role of these organizations as a service provider for the consumers. This, however, seems to have increase the dependency on public aid and weaken the capabilities to mobilize its own resources. Therefore, the government must overhaul the support policies for the natural growth and stronger infrastructure of these organizations than to merely provide direct support.

Finally, internal efforts of the civil society is far more important than support of the government. For the last ten years, various support groups have naturally been formed in the civil society: nonprofit private foundations started to be established and micro-credit institutions were formed. The growth of consumer cooperatives is another important element of the infrastructure for facilitating the growth of the third sector. The problem is that, there is no basis to systematically combine the various resources. These organizations still pursue their own businesses and struggle over achieving outcomes and such circumstances will hinder the expansion of the third sector. The power that drove the growth of the third sector in western countries started with a single network formed by various organizations.

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