

Agro-based Cooperative Enterprise in Korea: Current Status and Future Prospects

Pak Po-Hi

Social Enterprise Korea (SE-K)
Korea Institute for Social Information and Research
(In • Sirch)

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Presentation Outline

- I. Background and Context of Agro-based Cooperative Enterprise in Korea
- II. Current Status of Agricultural Cooperative Enterprise in Korea
- III. A Working Concept of Cooperative Enterprise
- IV. Rationale for an Agro-based Cooperative Enterprise Strategy in Korea.
- V. Potentials of Agro-based Cooperative Enterprises
- VI. “Social Enterprise”: a Frontier of Cooperative Enterprise cum Entrepreneurial Strategy
- VII. Prospects of Social Enterprise in Korea and the Asian Region

Background & Context of Agro-based Cooperative Enterprise (ACE) in Korea

- Decline of the traditional agro-sector due to:
 - Economic modernization drive
 - Expansion of the industrial sector
 - Out-migration of the rural population
 - Aging of the agrarian population
 - Conversion of farm land into capital resource base

Relevant stats

Farming households: ('95) 1.5 mil → ('02) 1.26 mil

People in farming households: ('95) 4.85 mil → 3.53 mil

Agro-employment/total employment: ('60) 65% → ('02) 9.0%

Agricultural workers aged: ('03) 40+ yrs 94%; 60+ yrs 51%

Farm household income (annual)(thou Won):

('95) 21,800; ('03) 24,470

Urban worker household income (month)(thou Won):

('95) 1,910; ('03) 2,940

Agriculture's GDP contribution: ('60) 45% → ('02) 3.7%

Cont'd

- Transition from agro-production to agro-biz/enterprise

Underlying factors:

- ✓ Quantitative and qualitative depletion of agricultural human resource through out-migration
- ✓ Infusion of modern sector capital into agriculture
- ✓ Increasing reliance on agro-sci/tech to compensate for agricultural human resource loss, raise productivity → increase return on capital inv'tmnt.

Relevant stats

Farm households by type of farming:

Farming only(thou households, %):

('95) 1,500 (100); ('03)1,260(100)

Not farming only(thou h'sholds): ('95) 650(43); ('03) 450(35.7)

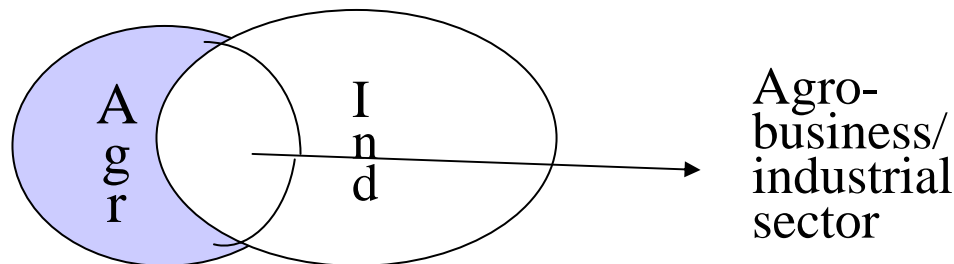
Sources of farm household income (annual):

From farming (thou Won, %): ('95) 10,460 (100); ('02) 11,274(100)

From non-farming (thou Won) ('95) 6,931(66.3); ('02) 8,140(72.2)

Cont'd

- Trend toward a full-fledged industrial footing
 - ✓ Increasingly, agriculture is subject to investment capital, technology, support service and management capability, like any other industry, rather than on soil and other natural environmental conditions.
 - ✓ Farmers are not just producers of crops; they are or need to be entrepreneurs also.
 - ✓ Knowledge- and IT-based agro-industry is no longer a matter for choice but an immediate survival strategy.
- Agro-business/industry in Korea, thus, represents the economic sector where the modern industrial mainstream and traditional farming sector are fusing. ACE is part of this sector.



Current Status of ACE in Korea

- Cooperative Movements:
 - ✓ Agricultural cooperatives
 - Informal – Communal planting, harvesting and/or marketing (ad hoc)
 - Communal development, ownership and/or utilization of agricultural resources (eg. facilities, machinery, implements, funds)
 - Formal – Cooperative banks, cooperative direct marketing, etc. with the agricultural coop. unions as the action arm.
 - Cooperative communities: Religious and/or environmental communes, Pro-environment farming/marketing/consumer coops.

Current Status of ACE in Korea (cont'd)

- Mixed characteristics of existing cooperative entities
 - ✓ Institutionalized sector(financially independent):
 - Agricultural, animal husbandry, fisheries cooperative unions
 - Cooperative credit unions
 - ✓ Voluntary sector(fully or partially dependent on external financial support):
 - Religico/pro-environment communes
 - Pro-environment farming, marketing, consumer coops, etc.
- In short, there is no ACE in its proper sense in Korea, although there are some cooperative enterprises in the manufacturing and venture business sectors.

A Working Concept of Cooperative Enterprise

- ✓ A business/industrial firm owned and managed by a community of people with shared interests and/or concerns, monetary or non-monetary, or both.
- ✓ An entrepreneurial *modus operandi* characterized by communal ownership on the part of all pertinent stakeholders, i.e. producers, managers, consumers, investors, and by fully participatory management.
- ✓ Community(geographical and/or functional)-based.
- ✓ Self-propelled and self-sustaining (financially and in terms of management).

Rationale for an ACE Strategy in Korea

- ✓ Widening land ownership and income gap leading to increasing marginalization of the vulnerable farm households.

Between '94~'02, the nominal annual income of agricultural households with:

< 0.5ha of arable land decreased	5%
3~5ha of arable land rose	11%
> 5ha of arable land rose	44%

The average per capita income of the top 20% as compared to that of the bottom 20% was:

5.5 times in '94; 7.1 times in '02.

Farming households without arable land(thou):

('98) 21,519; ('03) 21,407

Rationale (cont'd)

- Empower the marginalized through linkage and cooperation among themselves and with external support infrastructure.
- Strengthen the marginalized vis-à-vis external systems of relevance for attaining their collective goals/objectives (e.g. greater negotiating power, competitiveness in the market, better access to resources and opportunities, etc.)
- Promote agro-business/industry as a fresh venture sector offering opportunities for jobless rural and urban workers and, thus, contribute to

Rationale (cont'd)

- Enable the jobless to create self-propelled and self-sustaining work opportunities.
- Promote transparency in entrepreneurship
- Regenerate rural economy; revitalize rural community
- Lure back economically active population from high pressure urban centers to rural areas and into agro-business/industry
- Promote participatory entrepreneurial culture
- Contribute to balanced rural/urban development
- Contribute toward a fusion of industrial sectors

Potentials of ACE

- As gleaned from:
 1. The project experience of a community-based cooperative green enterprise undertaken in the context of the Korean economic crisis of 1997~ .
(A UNDP supported and ROK government funded project.)
 2. The status of “social enterprises” in Europe

“Social Enterprise (SE)”: a Frontier of Cooperative Enterprise

- Working definition of “Social Enterprise” :

Cooperative enterprise on the part of a community or a group of people seeking to achieve social as well as economic goals/objectives in the free-market context based on democratic values and resorting to participatory decision-making.

“Social Enterprise (SE)” . . (cont’d)

- SE’s key social goals/objectives:
 - Economic regeneration of community (geographic or functional collectivity)
 - Empowerment of the community
 - Employment generation
 - Observance of fair trade and other management ethics.
 - Democratic management (e.g. One person one vote principle in corporate decision making.)

“Social Enterprise (SE)” . . (cont’d)

- Major features of SE Strategy:
 - Self mobilization on the part of a community or group of people around common issues or goals, be they economic, social or cultural.
 - Formation of a cooperative framework around tangible objectives is the key.
 - Close networking among cooperative enterprises and between the enterprises and external relevant bodies/ organizations.
 - Financial and managerial independence and self-reliance.
 - Community interest above the interests of individual members of the enterprise.

“Social Enterprise (SE)” . . (cont’d)

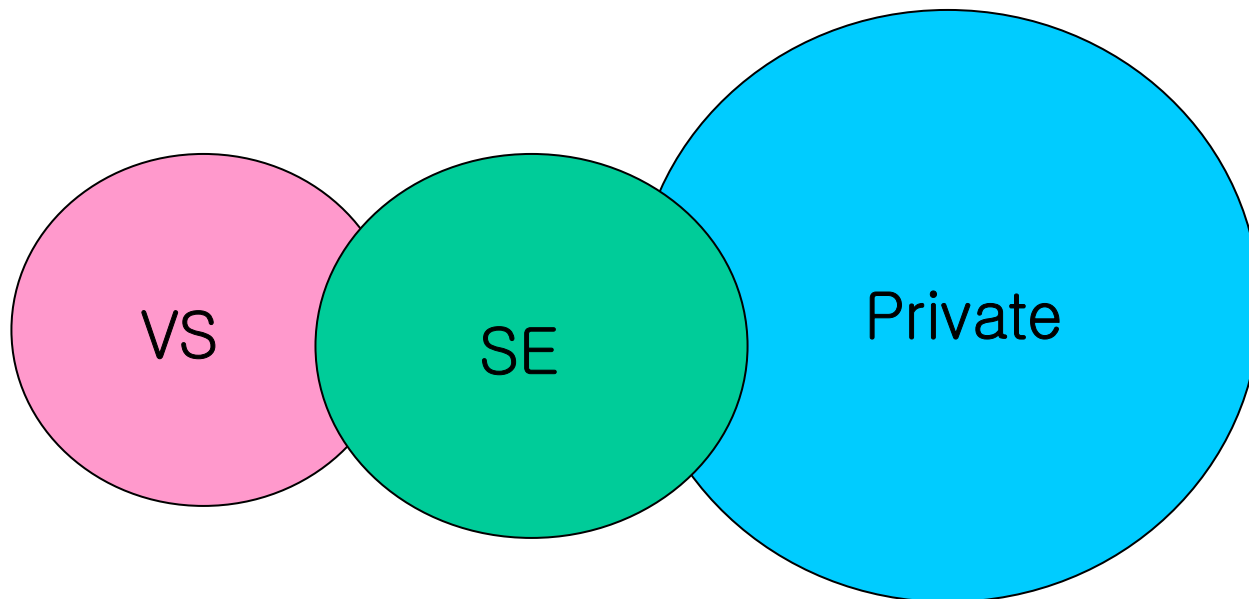
- The SE Sector

Various forms of cooperative bodies, civil society organizations, development-oriented foundations, voluntary service agencies, etc. may occupy the sector. In the continental Europe, the SE sector usually covers cooperatives, mutuels, associations and funds (CMAF) plus the income generating arms of charities. That is, the area between the traditional voluntary and private sectors, i.e. the 3rd sector.



Heading of the Presentation and slides

The SE Sector(cont'd)



Note: Sheltered workshops, other trading arms of charities occupy the VS/SE over-lapping area, while the SE/PS over-lapping area is occupied by private enterprises that give serious attention to social objectives, such as the Body Shop, Divine Chocolate et al.

The SE Sector (cont'd)

- SE Criteria and Indicators according to EU:
 - 4 Criteria
 - a) Production and delivery of goods and services on sustained basis
 - b) High degree of independence and self sufficiency
 - c) Acceptance of risks entailed in the creation and operation of enterprises
 - d) A minimum level of paid workers

The SE Sector (cont'd)

- SE Criteria and Indicators according to EU:

5 Indicators

- i) Created by the initiative of civil society group(s)
- ii) “One person one vote” principle
- iii) Participatory decision-making involving all stakeholders (including consumers)
- iv) Limited profit distribution (must reinvest for the benefit of the community or common good)
- v) Clear objective vis-à-vis the community benefit

Business Types of SE in EU:

- Manufacturing and Handicraft 33%
- Service Industry 38%
- Construction 14%
- Social Cooperatives 13%
(e.g. Social service provision;
Support to participatory actions)
- Cultural & Educational 2%

Some Outcomes of SE in EU

- As in 2003, SE provides jobs to 6.4 million persons or 4.4% of all employment in the EU.
Under the workers' cooperatives alone, 1.5 million SE workers.

Sectoral Breakdown:

Associations & voluntary sector	59%
Cooperatives	34%
Public sector	7%

- SE, in partnership with EU, is contributing to the consolidation of Europe as a more democratic, open and well integrated and socially responsive society.

Social Enterprise in the UK

- The cooperative enterprises that now belong in the social enterprise sector were launched in the early 1980's when UK underwent economic compression and faced difficulties in maintaining its post-WWII system of social security and services. The early SEs therefore sprang in the inner city areas to create jobs and services for the down-and-out and, thus, to revitalize the depressed communities.
- The enterprises generated the services through cooperative efforts on the part of the community residents themselves with some support from local governments and/or public service trusts. They were basically self-reliant and self-governing entities. Bromley by Bow, the Big Issue and Hackney Cooperative Development are a few of the early cooperative enterprises that are still highly visible today.

SE in the UK (cont'd)

- SE in the UK came into its own when Mr. Tony Blair took office with his “the Third Way” policy keynote. Cooperative enterprises such as cited came to represent an important stream of that keynote and became part of a wider spectrum of social purpose enterprises that the term “Social Enterprise” covers.
- The nomenclature “Social Enterprise” was officially used for the first time in the UK in 2001 when its Department of Trade and Industry (DTI) launched a programme in support of the enterprises in question and created an administrative unit to do so. “Social Enterprise: a strategy for success”, a policy document of DTI came out in July 2000.

Characteristics of UK's SE

1. Enterprise Oriented
2. Development Focus
3. Market Focus
4. Integration of Social Goals
5. Community Orientation
6. Social Ownership
7. Participatory Governance

UK's SE Infra. (as in 2003)

- **Action Agencies & Projects:**
 1. **Training - London Business School; University of East London; School for Social Entrepreneurs; On- off-line training programmes and self-learning aids provided by various SEs and umbrella organizations.**
 - **On-line specialized technical support service**
 - **Others**

UK's SE Infra. (as in 2003) (Cont'd)

2. “Think Tanks” – e.g. DEMOS; New
Economics Foundation
3. Technical support services (re: legal,
finance, loans, markets, exports/imports,
cooperation structures, community
mobilization, etc.
4. Networking – e.g. Cooperative Action
Network (CAN);
Social Enterprise
London(SEL)

UK's SE Infra. (as in 2003) (Cont'd)

5. ICT Contents – e.g. “Image”

6. Other types of cooperative enterprises (incl. building renovation and renting, construction, park design/landscaping, publishing, recy-cling, environment protection, etc.) - e.g. Hackney

Cooperative Development

7. Social service delivery – e.g. Bromley by Bow

8. Non-governmental umbrella bodies – e.g. CAN; SEL; Development Trusts Association; Community (DTA); Development Finance Association (CDFA);
Cooperative Housing Association (CHA)

UK's SE Infra. (as in 2003) (Cont'd)

- Administrative Bodies:
 1. Social Enterprise Unit, DTI
 - Focal point for government policy/program vis-à-vis SE
 - Champion for SE
 - Addresses obstacles for SE
 - Establishes orgs. necessary for SE development, e.g. Community Interest Companies
 - Recognizes/awards SEs of excellence
 2. Office of the Deputy Prime Minister
 - Responsible for SE for the rural sector

UK's SE Infra. (as in 2003) (Cont'd)

- Funding Bodies
 - Provides time limited loans or grants for business start-up.
 - Bank windows for SEs with staff assigned specifically for that sector
 - DTI's "Inner City 100 award"
 - “Pheonix Fund” (support to innovative inner city projects; contribution to community development project funding bodies; support to business start-up guidance agencies; community development venture fund; guarantees for charitable or commercial loans to SEs, etc.

• Funding Bodies (cont'd)

– Office of the Prime Minister

Allocations for building renovation and low-cost renting to the homeless in depressed non-urban areas, remote residential management, restoration of old traditional markets, improvement of other physical living conditions, etc.

2002- 2003년 £m5,451

2004-2005년 £m7,480

2005-2006년 £m7,741

(Note : OPM's total budget for SE not available.)

- Community Investment Tax Relief (CITR)

- 5% post-tax exemption for investment in Ses.
- Plus investment dividends if and when profits are available.
- (In the case of US, returns on community development investments said to vary from other investments by 1%–2% margins.)

Main Features of SE in UK

- UK's SE movement was predicated on the assumption that pressing socio-economic issues cannot be left entirely for the government to address but that the civil society must voluntarily coalesce to take its own initiatives. There were people and leaders who acted on this assumption.
- The SE's are led by people with clear sense of mission, business mind par excellence, leadership qualities appropriate for mobilizing communities and ingenious networking ability.
- At the heart of SE movement is the principle of self-reliance and participatory management structure and process.
- Commitment to place the common interest of all stakeholders above profit.

Main Features of SE in UK (cont'd)

Investment Strategy:

- Invest in people rather than just follow the “money trail”.
- Invest to empower people even while seeking business returns.
- Invest to increase the assets of the investment target.
- Invest in a manner that guarantees sustainability of the target enterprise.
- Creative investment that will bring both the entrepreneurial and social results.
- Invest to bring benefits to the investor as well as to the invested. (A Win-Win investment strategy.)
- Investment based on a close partnership between the government, the private sector and civil society.
- Investment within policy and institutional frameworks.

Main Features of SE in UK (cont'd)

- Continuous research in support of SE Success.
- Institutional, financial and technical backstopping and/or support at the national level.
- Sharing of information and know-how via multi-level and multi-dimensional networking.
- Well structured and diverse training programmes based on the collaboration between the academia and the enterprises.
- Guarantee of high quality goods and services and competitive management.
- Based on an alliance between the SE and the private sectors and the government.

Main Features of SE in UK (cont'd)

- Support from the private sector, including the banking sub-sector, represented a key breakthrough for SE expansion and stabilization.
- The government investment went for increasing the assets of the vulnerable communities and groups on a sustained yet time limited basis, steering away from short-term, often onetime only support.

Social Enterprise in the UK (cont'd)

- Some examples of SE financial status(cont'd):

The case of HCD

- Non-cash assets as in 2001

£1,850,256

- Common cash fund as in:

2002 £ 975,595

2003 £1,494,026

- Bldg rentals & maintenance service fees:

1997 £60,673

2001 £216,328

Social Enterprise in the UK (cont'd)

- Some examples of SE financial status:

The case of the DTA members

<u>Annual income (£)</u>	<u>% against total DTAs</u>
<1,000	1%
1,000- 10,000	5%
10,000 – 100,000	22%
100,000 – 500,000	42%
500,000 – 1,000,000	18%
>1,000,000	11%
Total	100%

Prospects for SE in Korea

- Korea has cooperative enterprise experiences such as: credit unions, agricultural and industrial worker cooperatives, consumer cooperatives, pro-environment coop. Movements, self-help cooperatives and, most notably the Saemaul Movement. Those other than credit unions, the self-help coops. and Saemaul, however, are basically ad hoc.
- Saemaul strategy has a great deal in common with SE strategy, except that the former was top-down gov't. programme while the latter is bottom-up civil society movement.

Prospects for SE in Korea (cont'd)

- Some Barriers to SE Adoption:
 1. “Social Enterprise” – the language
 2. The question “can we successfully chase two rabbits at the same time?”
 3. SE success has been been contextual (socio-economic, cultural, political) so far. Its success in the Korean context cannot be taken for granted.

Prospects for SE in Korea (cont'd)

Rationale for Introducing SE in Korea:

1. Strong pressure to create jobs
2. Inadequacy of existing job creation measures such as public works, self-help programmes, job training schemes, gov't subsidies to industries to hire workers, etc.
3. Pressure toward corporate reform and good governance.

SE strategy has the potential to address all these issues successfully.

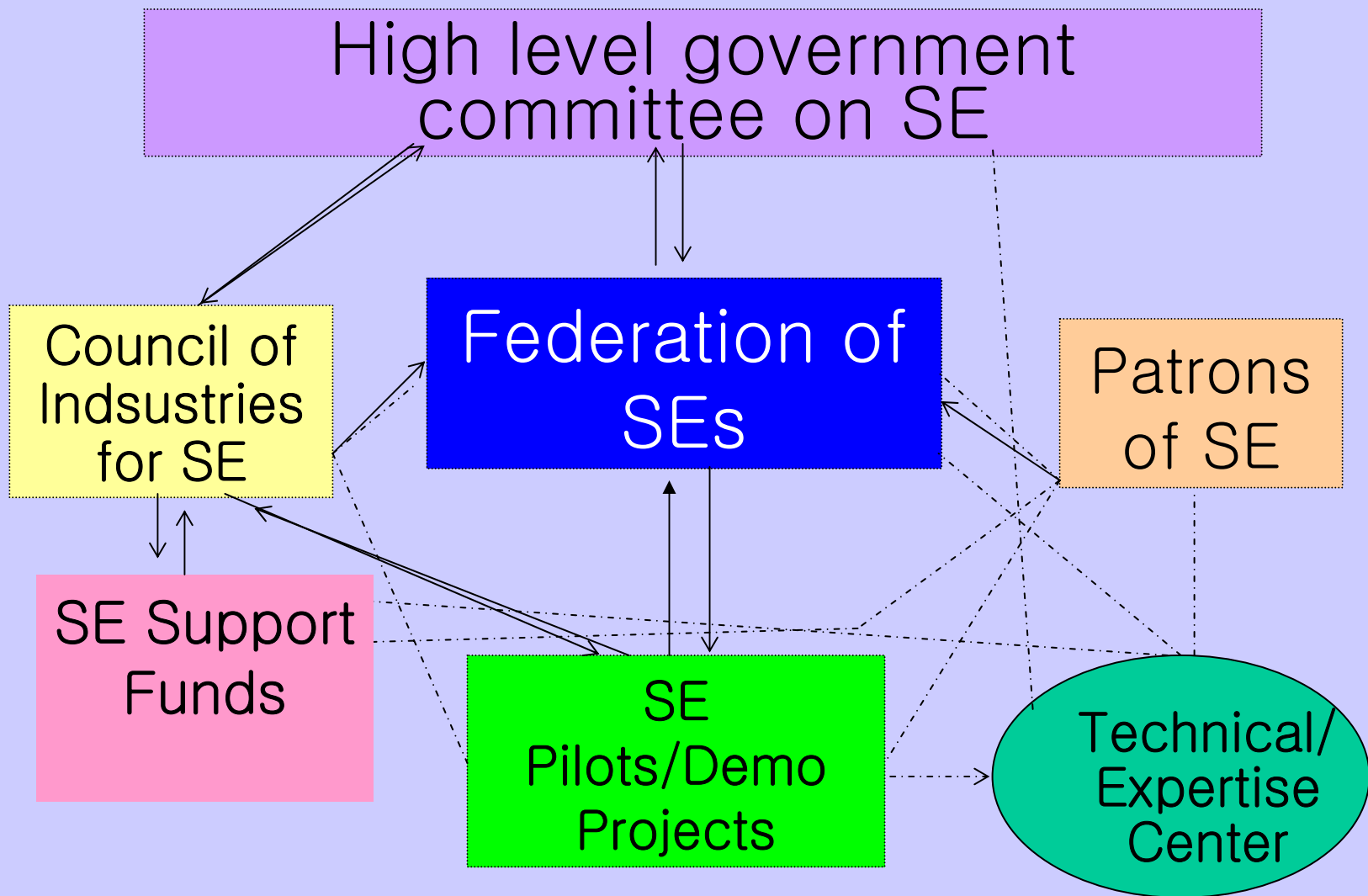
Approaches to Introducing SE in Ko Korea

- Preparatory Actions:
 - In-depth analyses of SE experiences in EU and the UK.
 - In-depth analyses of Korea's own cooperative enterprise experiences
 - Adequate and holistic grasp of existing job creation programmes of the Korean government and its future plans.
 - Adequate grasp of manpower requirements of the industrial sector in general and those of the agro-industrial sector in particular.
 - SE awareness survey on the part of all concerned civil society bodies, government organs/agencies.

Basic Infrastructural Components for SE Introduction in Korea

- Federation of civil society organizations concerned with or interested in SE.
- Council of corporations interested in SE
- One or more funds in support of SE
- Council of SE patrons
- SE cadre training organ
- Technical and expertise support service
- Legislation of laws in support of SE.
- High level government committee on SE
- A social audit system
- Pilot/demonstration projects.

Basic Infra components:



Types of SE Pilots/Demo Projects

- **Corporate Spin-Offs**
- **Conversions from public works**
- **Job training follow-ups**
- **Incubators**
- **Industry/self-help collaborations**
- **Traiding arms of voluntary organizations.**
- **Youth venture projects**
- **Conversions from traditional industries**

Closing

- If what have been tried failed to produce desired results, the only alternative is to attempt a new one.
- For Korea and for the developing countries of Asia and the Pacific, SE is a promising alternative.

See the example of Grameen Bank, a highly successful example of SE right at our door step! .