

KCMI

Sustainable Economic Growth and Welfare Expansion through Social Investments

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Kab Lae Kim

Head of Corporate Policy Department, KCMI
klkim@kcmi.re.kr



Korea Capital
Market Institute

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Chapter 1 : Background



**What are
the major challenges
for the Korean economy?**

Major Challenges for the Korean Economy

1

Background



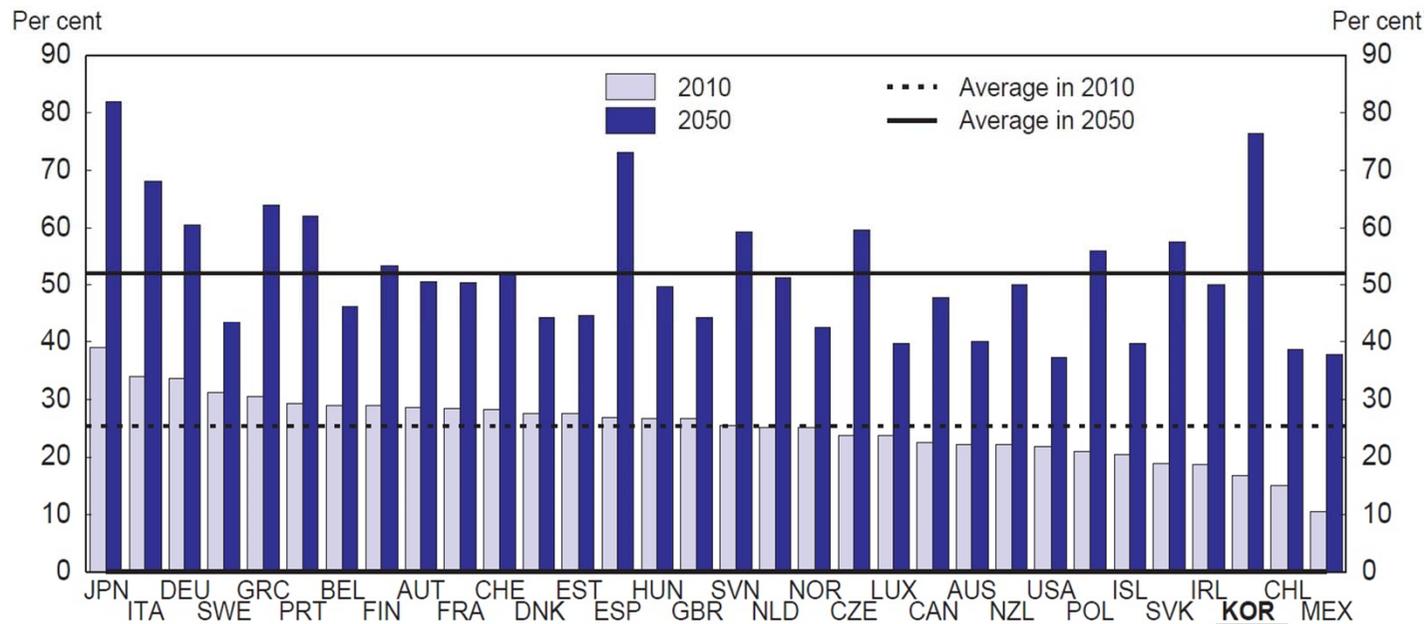
Fast Population Ageing and Low Growth

1

Background

❖ Korea is the fastest population ageing country in the OECD.

◆ Population Aged 65 and Over as a Share of the Population Aged 20 to 64



Source: Statistics Korea, Population Projection for Korea (2011 version) and OECD Demography and Population Database

❖ According to the OECD Economic Surveys: Korea 2012, “sustaining economic growth in the face of rapid population ageing” was pointed out as one of key challenges facing the Korean economy.

- The low birth rate in Korea may lead to the low economic growth according to the following process:
 - The low birth rate decreases the working age population.
 - The decrease may reduce the size of income and consumption expenditure.
 - The reduction may indicate a contraction stage of the business cycle.
 - The contraction stage may develop into a low-growth era.

◆ Deepening of Ageing Economy



Source: Deloitte Korea, Deloitte Newsletter. June 2013

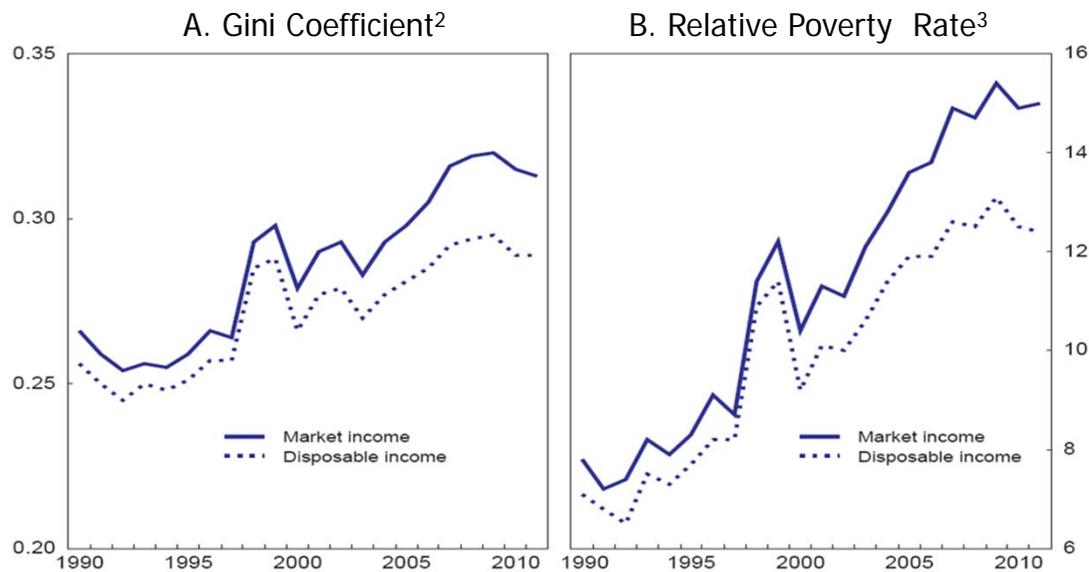
Economic Polarization and Social Cohesion

1

Background

- ❖ Given the long-term charts of Gini Coefficient and Relative Poverty Rate, income inequality and economic polarization are growing challenges for the Korean economy.

❖ Inequality has been increasing in Korea¹



Source: OECD Economic Surveys: Korea 2012

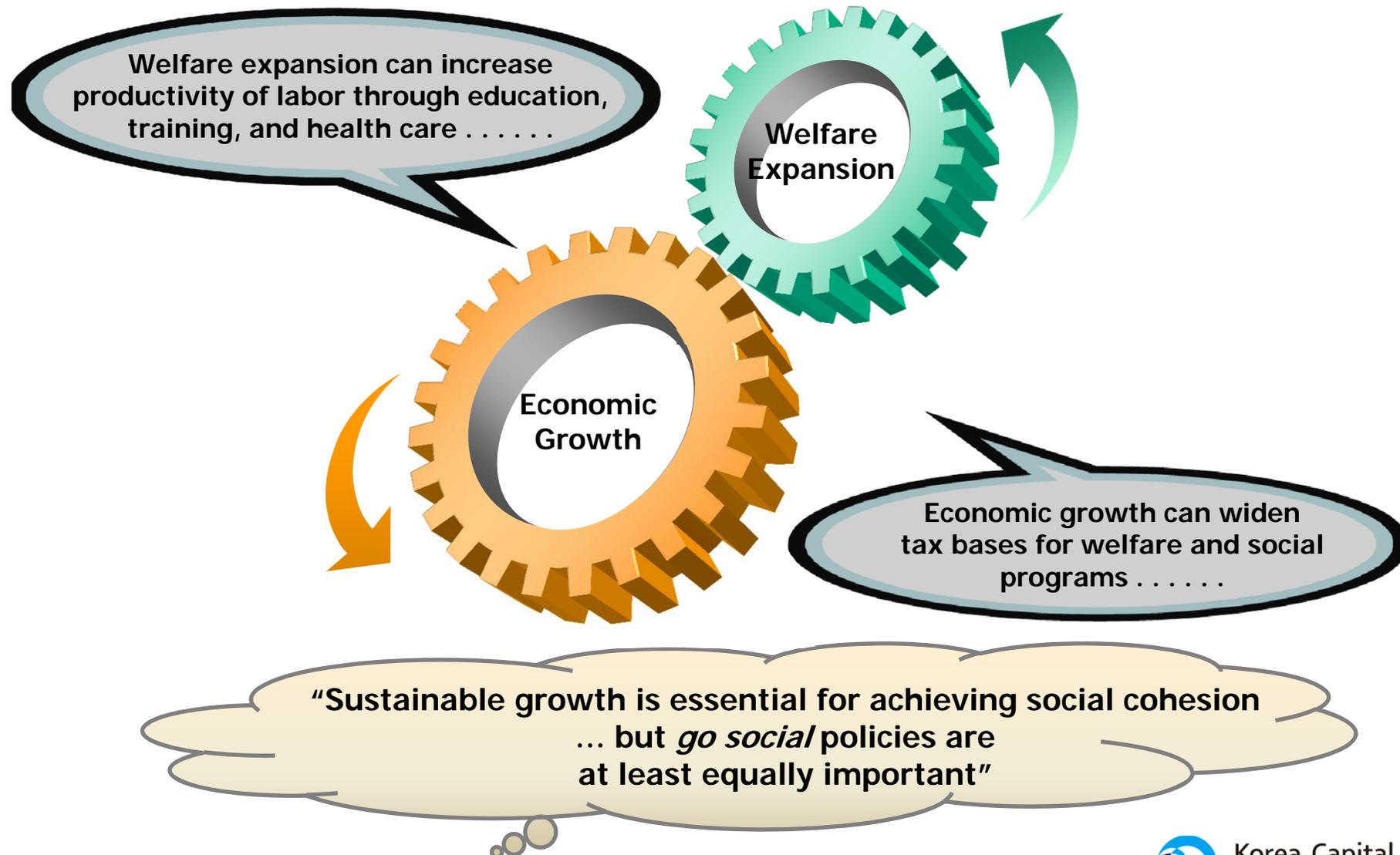
1. For urban households with at least two persons.
2. The Gini coefficient can range from 0 (perfect equality) to 1 (perfect inequality).
3. Relative poverty is defined as the share of the population that lives on less than half of the median income.

- ❖ The economic polarization harms social cohesion.
- ❖ According to the OECD Economic Surveys: Korea 2012, “improving social cohesion by reducing inequality and relative poverty” was one of two key challenges facing the Korean economy.

Organic Relationship between Economic Growth and Welfare Expansion

1

Background



Chapter II : Implementation Problems

What are the problems in implementing the expansion of welfare and social programs?

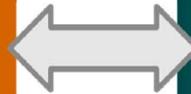
Korea's Dilemma in Welfare Expansion

2

Problems

There are growing demands for welfare expansion due to population ageing and economic polarization.

- "The government should therefore move cautiously and incrementally in developing social welfare programmes..." OECD, 2012



Excessive welfare demands may jeopardize the growth potential of the Korean economy.

- "Given the impact of ageing, Korea should be cautious in expanding social welfare programmes." OECD, 2012

"The trade-off between economic growth and social spending is not clear cut, as some types of spending may also promote growth."

Implementation Problems with Government-Driven Welfare Policy

2

Problems

To successfully implement welfare expansion linked to economic growth, the below-mentioned problems should be addressed in innovative ways.

OVERCOME

Cost-
Ineffectiveness

Financing
Gap

Poor
Evaluation &
Lack of
Accountability

Financing Gap

➤ Financing Gap for Welfare Expansion

- ✓ Social demands for welfare expansion are on the growing trend because of population ageing and economic polarization.
 - “Deputy Prime Minister and Finance Minister Hyun Oh-seok said that the Park Geun-hye administration would seek to invest more than 100 trillion won (\$92.4 billion) in welfare projects next year, by far the biggest investment in the sector by a single Korean government.” - The Korea Herald, Korea to Expand Spending on Welfare, Job Creation Next Year (Sep. 16, 2013).
- ✓ However, the government budget for welfare is tight due to the sluggish economy.
 - “Experts say that the actual increase of taxation will not come soon due to strong public resistance and it will take some time to reach a consensus” on the tax increase for welfare expansion. - The Korea Times, Tax Increase Debate Heating Up (Sep. 17, 2013).
 - Also considering the burdens on economic growth and fiscal soundness, the government is careful in increasing taxes.

Cost-Ineffectiveness

- The poor economic condition and the constrained budget situation requires more efficiency and effectiveness in the welfare and social services.
 - ✓ Many advanced countries facing tight budget and poor economy focus more on how efficiently they spend the taxpayers' money than on how much.
 - "This isn't about big government or small government. It's about building a smarter government that focuses on what works." - Barack Obama (Nov. 26, 2008)
- However, the public welfare services that seek improved social outcomes reveal inefficiency and ineffectiveness due to lacks of evidence-based decision making, result-based management, access to expertise, and market competition.
 - ✓ The government should try to find innovative ways to make welfare and social services more effective, efficient and responsive.

Implementation Problem : Poor Evaluation & Lack of Accountability

2

Problems

Poor Evaluation & Lack of Accountability

- The poor monitoring and evaluation (M&E) on welfare and social services results in a lack of accountability in the area of welfare and social services.
 - ✓ The poor M&E on welfare and social services have negative effects on funding and efficiency of those services.
 - Taxpayers and private funding sources will open their wallets more widely to fund welfare and social programs, if the M&E explains how their money is spent and what is accomplished.
 - “Officials responsible for welfare administration must keep three principles _ fairness, transparency and efficiency _ in mind when collecting and spending taxpayer money.” - The Korea Times, Tax and Welfare (Feb. 19, 2013).
 - The monitoring of the performance and the evaluation of the outcomes of the welfare and social programs enhance the efficiency and effectiveness of the programs.

An Example of the Implementation Problems : English Village Programs in Korea

2

Problems

- Since 2004, many local governments in Korea have established and run “English Villages” to provide the local residents and students from vulnerable families with opportunities to experience and learn English in English-interactive environments.
- “Less than a decade later, **however**, many of the English villages are struggling to attract enough students to make ends meet . . . [Many local governments] used taxpayers' money to cover deficits” of the English Villages. - The Korea Times, Once-flourishing English Villages Struggle to Survive (Sep. 6, 2012).

An Example of the Implementation Problems : English Village Programs in Korea

2

Problems

Problems with English Village Programs

Ineffectiveness

- Sloppy management focused only on publicity
- Little managerial efforts to enhance efficiency and effectiveness by using expertise from the private sector, incentive mechanism, and competition system.
- National Assembly Research Service recommended for the English Villages to develop customer-tailored services and strengthen partnerships with professionals from the private sector.

Financing Gap

- High demands for English Villages to resolve educational polarization
- However, for the English Village programs, the budget-tight local governments are financially too dependent on the central government whose budget is also under constraint.
- Little efforts for innovative financing

Lack of Accountability

- Insufficient feasibility study and decision making driven by populism
- Poor goal setting and outcome measurement
- Little responsibility for the chronic deficits
- National Assembly Research Service recommended for local governments to conduct more rigorous feasibility studies and for the central government to evaluate the performance of English Villages.

Chapter III: Promotion of Social Investment Market

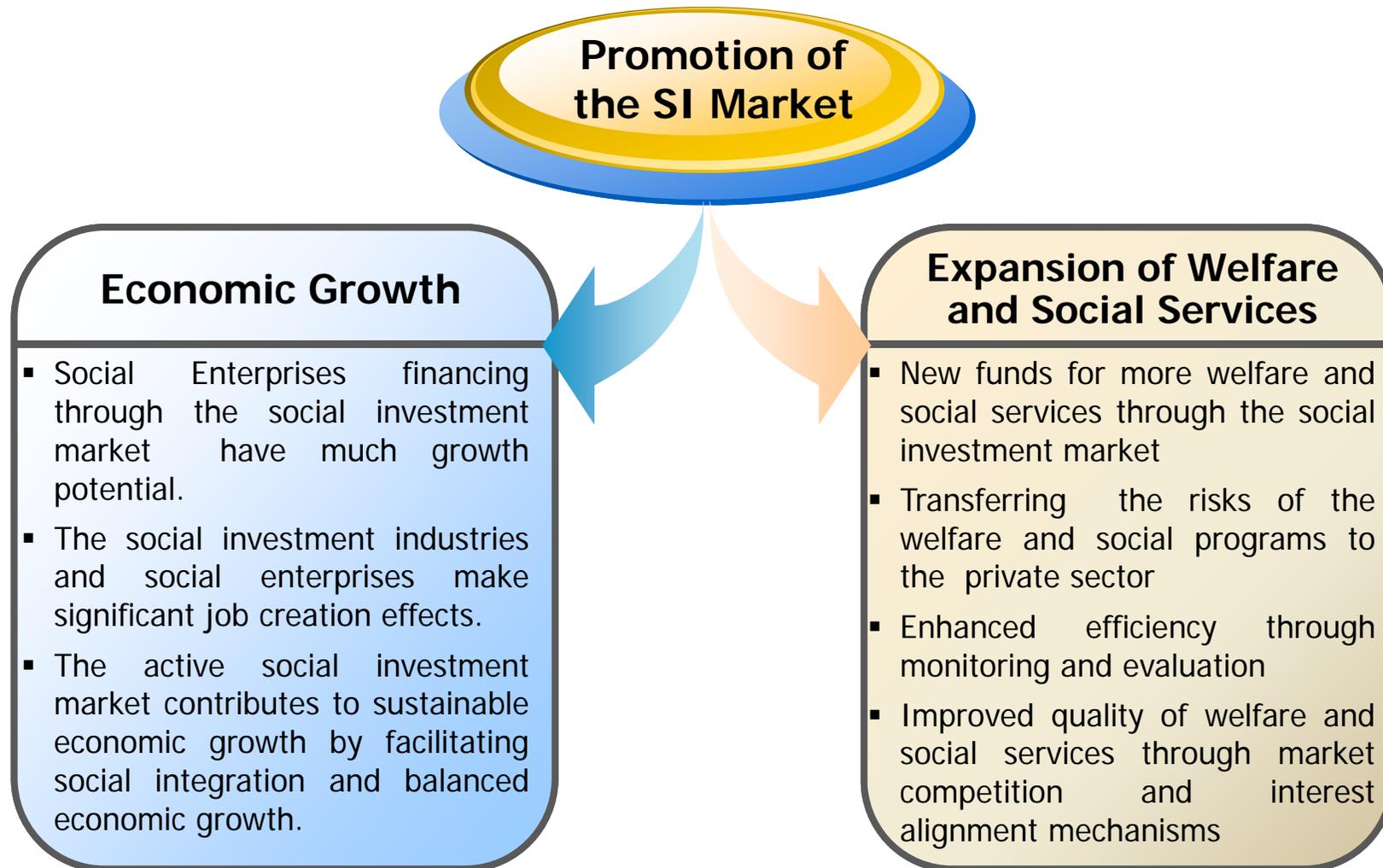
As measures to increase welfare spending without a tax hike, the government emphasizes the reduction of tax relief and the legitimization of underground economy.

Is there a third way to expand welfare without a tax hike such as financing welfare and social services from the private sector?

- As an alternative and complementary measure to increase welfare and social services without a tax hike, let's turn our attention on the social investment market.

Social Investment Market

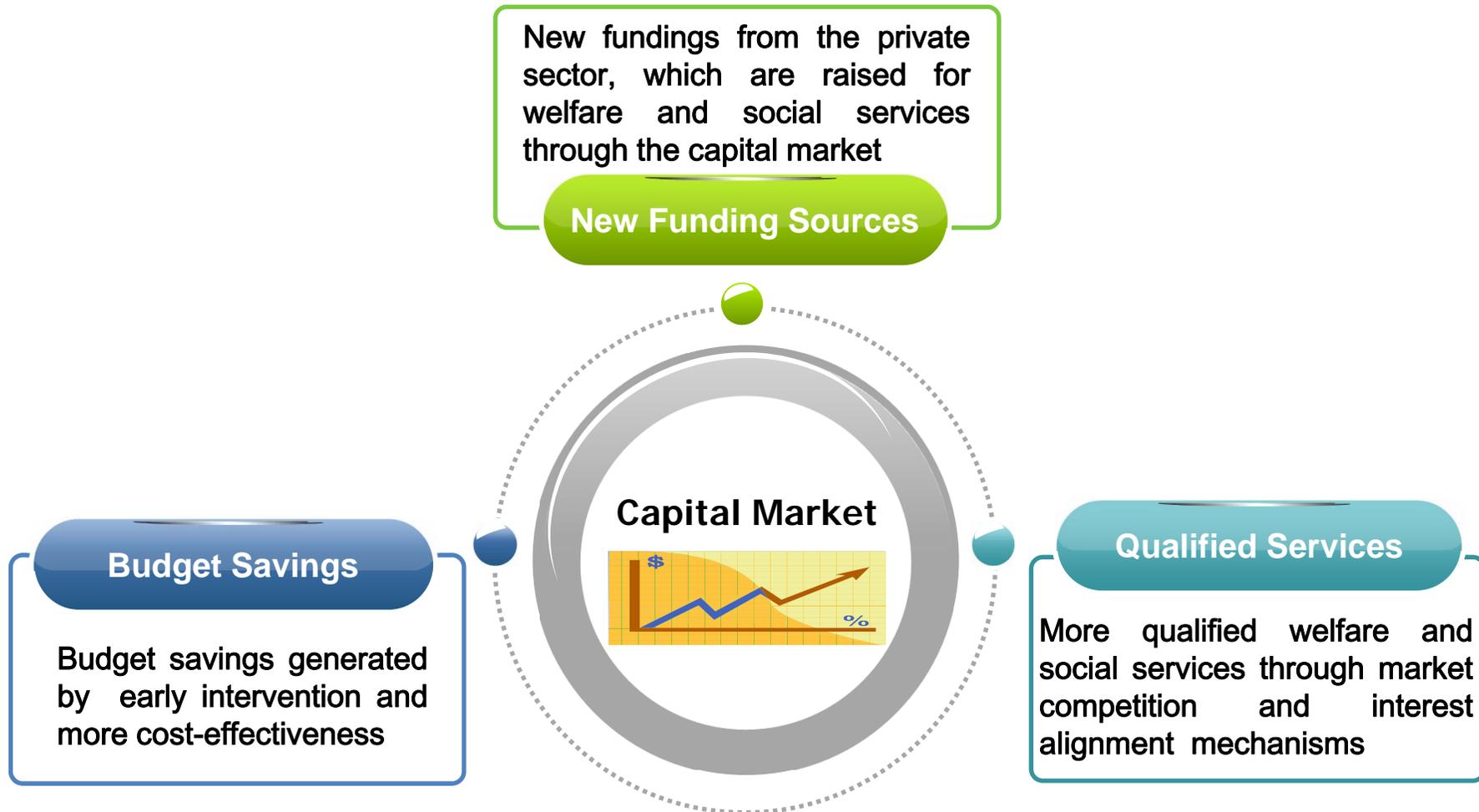
- The social investment market is the market of new types of financial investments that seeks to make a positive economic, social or environmental impact in a community as well as financial returns.
 - ✓ "In 2011/12, the UK social investment market grew by almost a quarter from 2010/11 to £202m through 765 deals." - ICF GHK & BMG Research, Growing the Social Investment Market: The Landscape and Economic Impact (2013)
 - ✓ "The global social investment market is also growing. The G8 Social Impact Investment Forum builds on increased interest in social investment around the globe, measured in part by an increase in internationally-focused market infrastructures." - HM Government, Growing the Social Investment Market: 2013 Progress update (2013)



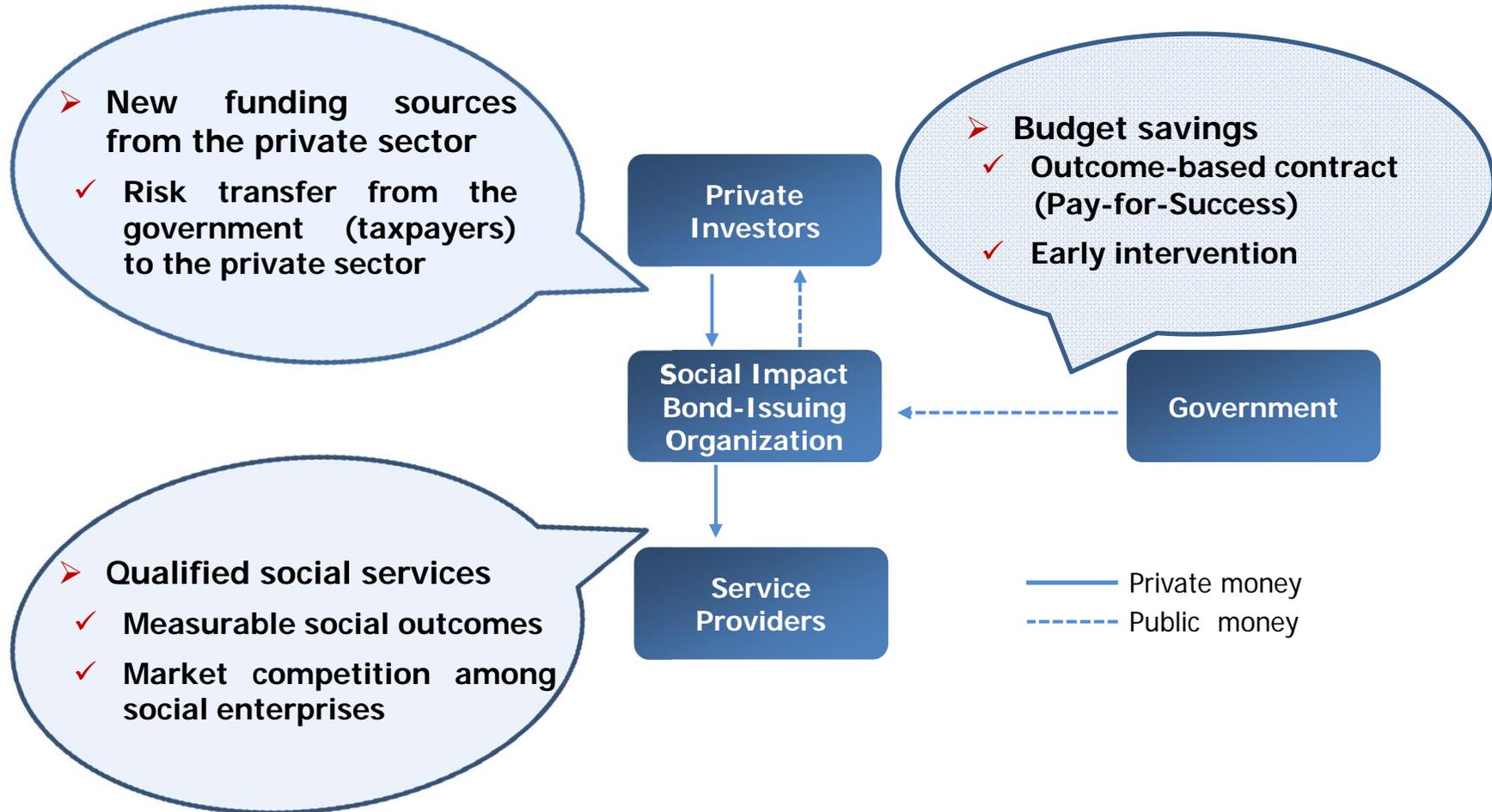
What Makes It Possible to Expand Welfare and Social Services without a Tax Hike through the Capital Market?

3

Promotion



Social Impact Bond as an Example



How to Promote the Social Investment Market?

Building of the Social Investment Ecosystem

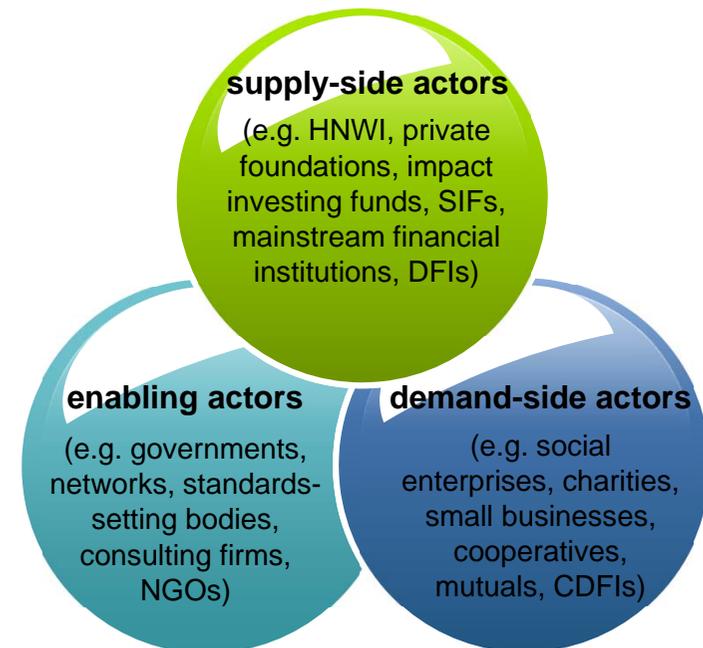
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Promotion

- In order to make the social investment market produce positive effects, various players in the ecosystem should function and interact well with each other.

- ✓ The social investment scheme involves the diverse relationships among players (players from both demand and supply sides, and ecosystem enablers such as the government, intermediaries, and other organizations for networking and consulting).
- ✓ Therefore, the cooperation among players in the ecosystem is a key success factor.

- ◆ Venn diagram showing the interaction between supply-side, demand-side and enabling actors



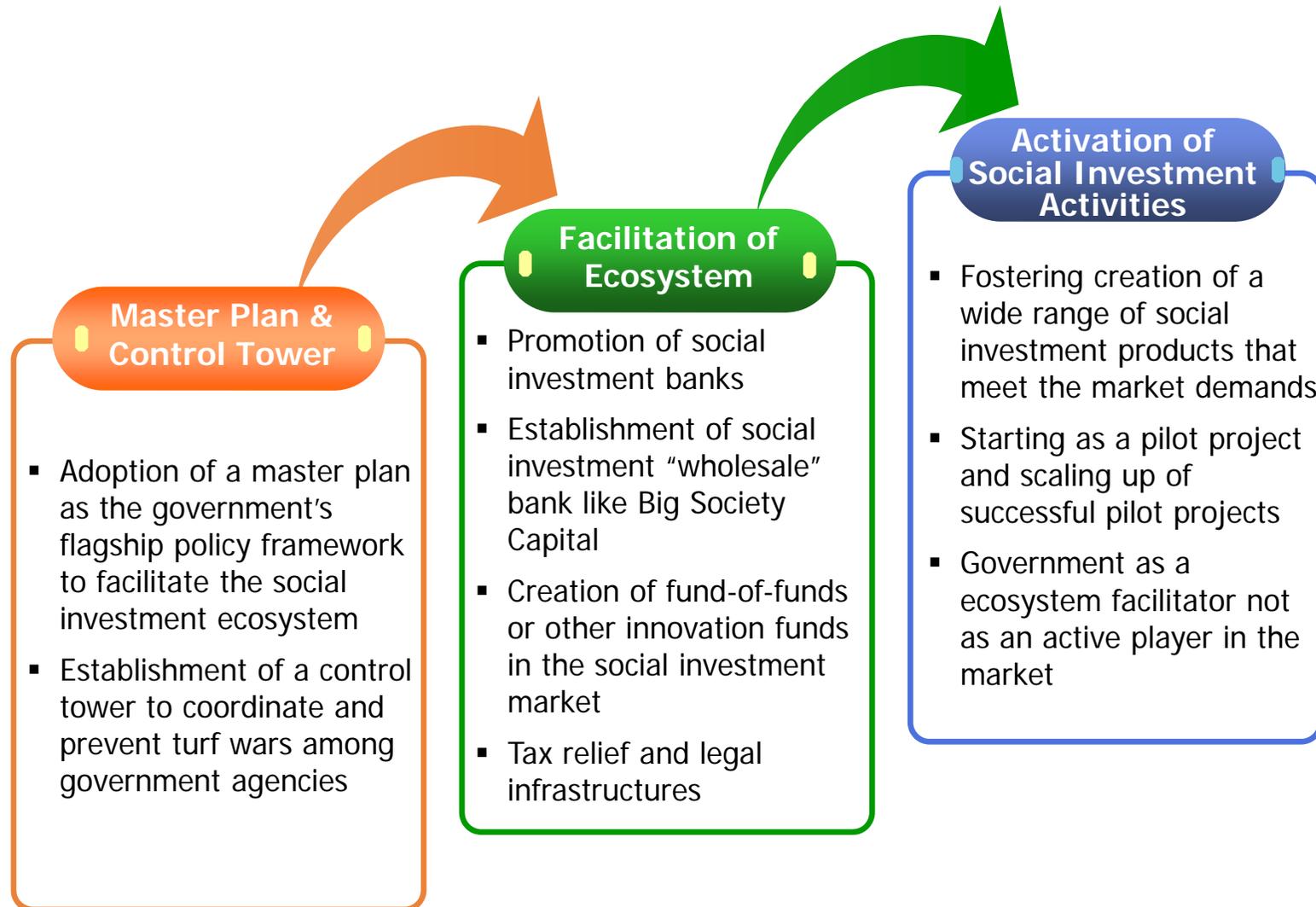
Source: Cabinet Office, Social Impact Investment Forum: Outputs and Actions (2013)

- Introduction of social investment schemes such as social impact bonds cannot be successful without building a sound social investment ecosystem.

How to Build the Social Investment Ecosystem

3

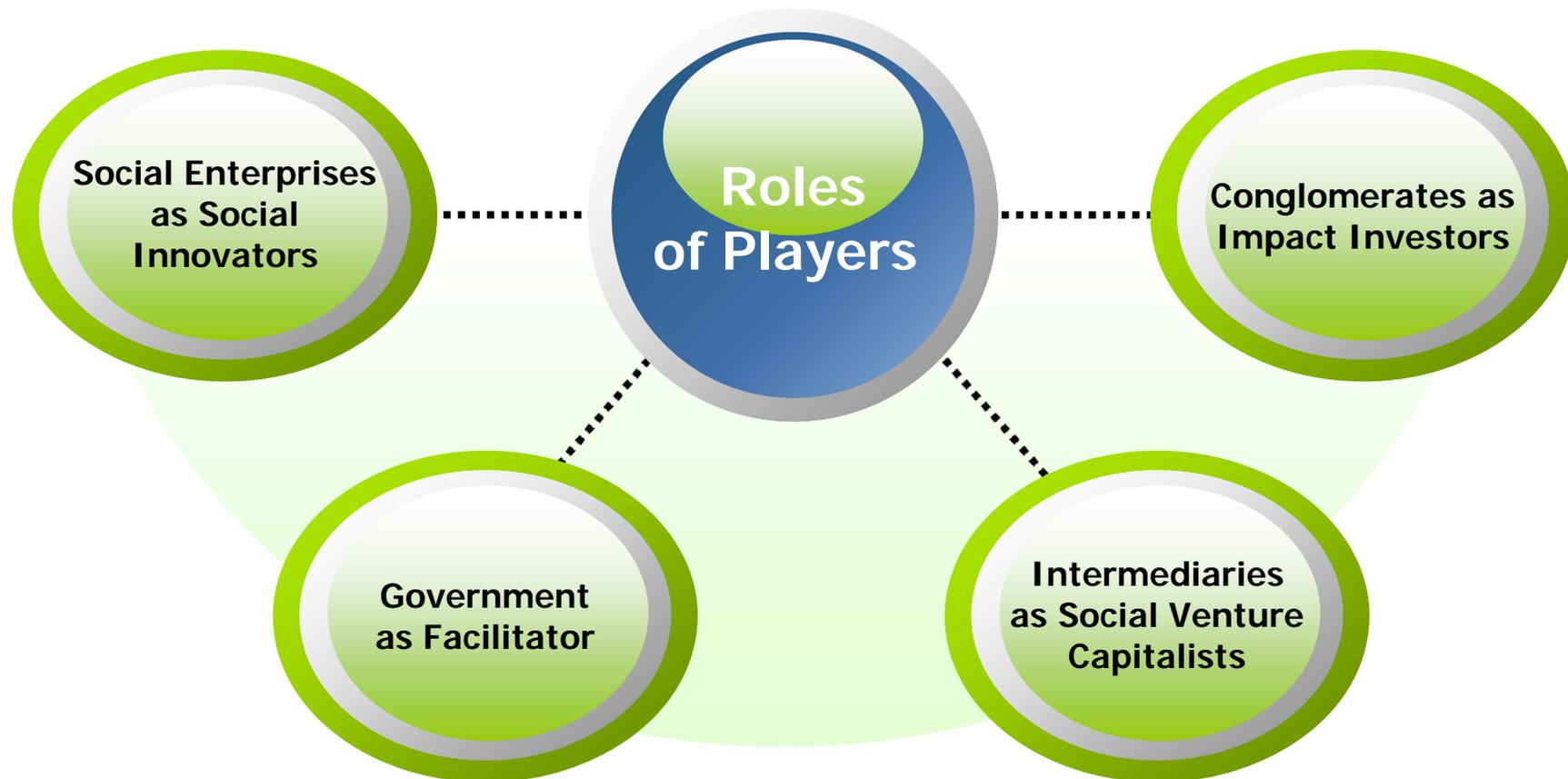
Promotion



Roles of Key Players in the Social Investment Ecosystem

3

Promotion



Myths and Truths about Social Investment

3

Promotion

Does the word “social” as in social investment have a political meaning?

No. Both the Democratic party in the US and the Conservative party in the UK, as ruling parties, plan and implement policies to grow social enterprises and social investment markets.

Does the role of the social investment market replace the government's role in the social welfare system?

No. In the social welfare system, the role of the social investment market is complementary to the role of traditional government driven social welfare. If a pilot social investment program proves to be successful, the program will be scaled up. In this sense, the social cost of the policy to grow the social investment market is relatively small.

◆ Announcements Made at the G8 Social Impact Investment Forum

International

- ✓ Social Impact Investment Taskforce
- ✓ Voluntary Initiatives to Build the Global Social Impact Investment Market
- ✓ Global Learning Exchange
- ✓ Global Development Innovation Ventures (GDIV)
- ✓ The Global Social Entrepreneur Network

Domestic (UK & US)

- US Small Business Investment Company (SBIC) Early Stage Fund
- Help for Communities to Buy Local Assets
- Consultation on Social Investment Tax Relief
- Launch of the Social Stock Exchange

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Thank you



자본시장연구원
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