

CHAPTER 14 SOUTH KOREA

# Korean Credit Unions CSR and Social Finance

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## I. Introduction

### Credit Union in Korea

This year, Credit Union celebrates its 59<sup>th</sup> anniversary. Credit Union is a cooperative-type financial institution that operates as a non-profit entity for mid-level and lower income households. Credit Union currently has 888 primary credit unions as members, 1,653 locations, 6.15 million members and USD 8.1billions in assets. It is not just a financial institution, it is a social movement working to create a society where people live together under the philosophy of considering people and members first. To realize its philosophy, Credit Union engages in corporate social responsibility (CSR) activities, provides social financing and supports the social economy to help create social value and practices the spirit of the Credit Union movement.

### Activities

In addition to savings and loans for members and local communities, Credit Union is heavily focused on CSR activities, providing social financing and supporting the social economy.

**CSR activities:** The central office of Credit Union established the Credit Union Social Contribution Foundation to carry out a variety of local social contribution activities in which Credit Union and its employees participate.

**Social financing:** The Social Economy Team in the central office of Credit Union systemically aims to provide USD 89.6 million in social financing per annum.

**Supporting the social economy:** Credit Union supports social economy organizations in a variety of ways through management support, operational support and space as well as financial support.

## II. Social contributions

### Youth's cooperative Start-up Support Project

To ease youth unemployment and create a healthy ecosystem of cooperatives, Credit Union established the Young Persons' Cooperative Start-up Support Project. Eighteen startups have been identified and incubated so far and provided with USD 116,487 in financial support. In 2018, Credit Union paired up the selected cooperatives founded by young people to local primary credit unions at a 1:1 ratio to provide total business support, including business feasibility reviews, start-up mentoring, sales channel exploration and cooperative business discovery.



### 1 school : 1 primary credit union financial education

Primary credit unions provide financial education (including commonly-known financial and economic information, career experience, etc.) to students at nearby schools, giving them opportunity to gain a sufficient level of understanding about the economy. Primary credit unions in 50 regions entered into partnerships with primary, middle and high schools nearby to carry out a variety of activities, such as financial education and class visits to primary credit unions. By October 2018, 2,445 primary, middle and high school students had participated in the financial education offered.



### Cooperative economy mentoring

Credit Union provided programs, focusing on cooperation and economics, to children and youth registered with local children's centers inside common bond. 91 primary credit unions have become partners of nearby children's centers and offered 7-month mentoring programs (647 sessions in 2018). Financial education by primary credit union employees, one-day bank employee experience, on-the-job training, etc. 615 employees of 91 primary credit unions participated in this program for 2,250 children from low-income families. By the end of 2018, Credit Union had entered into partnerships with 256 children's centers and provided USD 688,172 for the program.



### Children's Soccer Club



Credit Union held a 3-day soccer camp for children from the alienated class and the children of primary credit union employees, on learning to cooperate and cultivate social skills through sports. Worked with Plan B Sports, a social cooperative that helps retired soccer players re-socialize. In addition to learning basic soccer skills, the kids also practiced developing a cooperative spirit through cooperative games and mini-games. The School was held four times in 2018, with 248 children from low-income households or of primary credit union employees participating.



### Volunteering in Korea

As part of its ethics movement for creation of a society where everyone lives together, Credit Union employees volunteered in low-income neighborhoods or where medical services are inadequate.

**Medical volunteers:** In 2018, Credit Union set aside 10 days for its employees to engage in medical service volunteering. Medical services provided to 1,662 Credit Union members and local residents.

**Onsesang Sharing Campaign:** In October every year, Credit Union provides heating and cold-weather items to low-income households. In 2018, 6,700 Credit Union employees and members from 342 primary credit unions participated in the Campaign. 100,000 coal briquettes and 5,600 cold-weather items were provided to 4,800 low-income households.

### Volunteering outside Korea

Credit Union provided medical help, built vocational training centers and carried out other vol-

unteering activities for local communities and children in foreign countries.

**Vocational training centers:** Credit Union built a vocational training center in Choeung Ek, Phnom Penh, Cambodia, to improve the local environment and local infrastructure. Provided training in job skills related to computers, English, sewing, etc. and opportunity for young people in the local community to help themselves. A group of Credit Union employees participated in remodeling



of the vocational training center and gave USD 80,645 to the Vocational Training Center Establishment Fund.

**Medical service volunteering:** Credit Union provided 4 sessions of medical services (including dental care) in 4 Asian countries (the Philippines, Nepal, Mongolia and Sri Lanka) between 2014 and 2017. Served 6,921 persons in 4 regions.

### III. Social financing

#### Social economy

The 'social economy' refers to economic activity in the private sector that creates social value. It represents private sector efforts to resolve social problems that cannot be handled by the public sector alone, such as unemployment, the growing wealth gap, climate change and the demographic cliff.

**Expected results:** The social economy can create a variety of positive effects, such as mitigating market or government failure, creating jobs and mitigating income polarization.

#### Social financing

A financial activity that pursues both realization of social value and financial gain. Loans to the social economy sector are made at low interest for the long-term. In Korea, there is insufficient social financing, as most social economy organizations are still small and remain unsound financially.

#### Social financing by Credit Union

Credit Union, as a member organization in the social economy, is planning a social economy ecosystem.

**Creation of supply system:** 137 of Credit Union's 888 primary credit unions will serve as social financing leaders to lead Credit Union efforts to increase and strengthen social financing. When evaluating loan applications, Credit Union uses a social value evaluation table to consider the applicant's contribution to creation of social value. Those who pass receive long-term, low-interest patient capital.

**Social savings:** Credit Union offers a savings product that provides 0.5% lower interest to those who agree to work towards vitalizing the social economy. The central office matches the lower portion of interest (0.5%) to create a fund (equal to 1% of the total interest on the savings) to be provided to approved social economy organizations.

#### Financial transactions

So far, most of the small volume of transactions between Credit Union and social economy organizations have involved savings and loans.

The central office manages 2 exclusive products (Special Guaranteed Loan for Cooperatives and Win-win Cooperation Loan) offered by primary credit unions, designed to make it easier for social entrepreneurs to access financial services.

#### Financial Transactions between Credit Union and Social Economy Organizations in 2018

Savings			Loans		
No. of primary credit unions	No. of social economy organizations	Balance	No. of primary credit unions	No. of social economy organizations	Balance
444	1,500	USD 35.6 million	53	178	USD 14.8 million

## Primary credit union examples

### Dongjak Credit Union

- Reduced or waived transaction fees for social entrepreneurs.
  - *100 companies benefitted from reduced or waived fees in 2018.*
- Evaluated loan applications from social entrepreneurs considering the social value they would create, as well as their financial status.
  - *Provided 124 loans equivalent to USD 8.8million to social enterprises in 2018.*
- Identified a variety of social financing models through cooperative projects.
  - *Acted as an intermediary for the Seoul Metropolitan Government (SMG) social investment fund and provided long-term, low-interest patient capital (totaling USD 6 million) to social enterprises and the socially vulnerable.*
  - *Sought to resolve housing problems faced by the housing poor (young adults and alienated elderly) through exclusive social housing finance products.\**

\* Provided rent deposit loans to 58 persons, worth a total of USD 331,541.
- Provided loans for mini-photovoltaic power generators, as part of the Green Financing Demonstration Program and contributed to improvement of local energy welfare.
  - *Provided eco-friendly mini-photovoltaic power generators (USD 3,584) to 20 persons under an interest-free installment payment plan.*
- Collaborated with Chongnyun Jigap Training Center\* to organize 'The Right Loans for Young Adults' and 'Zero Debt for Young Adults' campaigns.
  - *Provided personal credit consulting to 10 young adults to help them become financially independent through appropriate loans and refinancing programs (equivalent to USD 26,882).*

\* A social cooperative that helps young adults plan for healthy finances by reviewing their

financial situations and spending patterns and providing consulting and education.

### North Seoul Credit Union

Handled the SMG social investment fund and provided working capital and building acquisition funds at low interest rates, mainly to new social enterprises.

- Provided 144 loans worth USD 5.6 million to social enterprises as of 2018.
- Helped found and run Kidari Bank - a bank founded by university students that operates in the form of a cooperative, granting micro-loans or credit to student members.
  - *Model case: Kidari Bank at Hanyang University has 145 members and has provided loans totaling USD 19,713.*

Provided financial products designed to resolve social problems (social installment savings and local crowd funding)

  - *(Social installment savings) An installment savings product that offers 1% higher interest rate than a time deposit, if the customer agrees to contribute 10% of his/her monthly savings to a fund designed to resolve social problems.*
  - *(Crowd funding) Contributed a certain amount when a customer subscribes for a time deposit designed to help those in the region's vulnerable classes and provided preferred interest rates in accordance with the amount of contribution.*
  - *Model case: North Seoul Credit Union Jjajang Day -free jjajangmyeon to approximately 500 children registered with 17 local children's centers every month (North Seoul Credit Union contributed an amount that matched the amount raised through crowd funding).*
- Developed and managed a win-win cooperation fund and local self-help fund model; managed local funds account to which public and private sector actors contributed.

## IV. Support for social economy

### Support for the social economy

Credit Union helped increase self-sufficiency within the social economy not only through social financing, but also management support and provision of space. Credit Union is helping social economy organizations in a variety of ways, such as through start-up support, free bookkeeping software and other cooperative programs.

### Management support

**Support for tax and accounting issues:** Credit Union developed and provided a dedicated online tax and accounting support platform for social economy organizations that need it. 374 social economy organizations have become members of CU-bizcoop and were using the platform as of 2018. It will collaborate with social economy support organizations in Gyeonggi-do to provide a tax and accounting support program to cooperatives in 2019. In addition there will be monthly visits to cooperatives to assist them in properly maintaining their accounting books and file tax reports. Credit Union will also provide annual tax and accounting software training to social enterprises in each region (10 sessions in 2019).

#### Major functions of CU-bizcoop

**Accounting:** Financial accounting services, such as accounting, settlement and bookkeeping for cooperatives

**Tax:** Issuance of tax invoices, management of sales and purchases, filing VAT returns etc.

**Others:** Member management, management of member investments, analysis of geographic business environment etc.

### Support for management of village management cooperatives

Credit Union helped people establish village management cooperatives where people and communities maintain and manage their own villages; reviewed business feasibility of village management cooperatives; and provided support with such items as budget and accounting management. Credit Union vitalized and developed local economies through management support.

#### Village management cooperative

- In implementing an urban rehabilitation project (road reorganization, supply of common facilities, reorganization of appearance, etc.) implemented by the Korean government, the village management cooperative is to be led by residents, to participate in urban rehabilitation and manage the rehabilitated urban area thereafter.

### Space provided

As part of cooperation between cooperatives, free business space was provided to young social economy organizations with financial challenges, towards becoming self-sufficient.

### Primary Credit Union Examples

#### Jumin Credit Union

- Provided both financial support and a comprehensive incubation service ranging from corporate establishment to management.
  - Exemplary case: USD 716,846 loan granted to Seongnam Citizens' Bus Co., Ltd. for the purchase of a bus and assisted citizens in getting micro credit loans (USD 2,688 per person) to make their investments.
  - Incubation services also provided, such as consulting, towards Seongnam Citizens' Bus Co., Ltd. becoming certified as a social enterprise.



- Helped cooperatives establish themselves and provided office space.
  - Jumin Credit Union provided free space in its own building to more than 10 cooperatives.
  - Jumin Credit Union entered into a 5-year lease agreement with 'Nanum Café' which asked for no rent if 30% of Nanum Café's operating profit was donated to the local community in the interest of mutual benefit and contributing to society.
- Actively sought to form solidarity and cooperate within the social economy network.
  - Towards more reciprocal relations, Credit Union reduced credit card transaction fees for cooperatives which designated Credit Union as their main bank and introduced Credit Union to their members.
  - Used the cooperative member basis to provide sales channels to social enterprise organizations.
- Participated in the 2018 Cooperation Project Discovery Contest for Cooperatives\* to implement the cooperated projects.
  - Organized health education and visit-the-producer events, as well as cooperative projects.



- Formed a Cooperative Social Economy Fund\* with some 120 social economy organizations in Seongnam City to develop the local community.
  - \* A joint fund created by the social economy network in Seongnam City. Jumin Credit Union contributed 1% of its total dividends (to be paid to members) to the fund as a social dividend.

#### Samick Credit Union

- Helped Ggum-eerum Cooperative establish itself and provided it with office space. Ggum-eerum Cooperative was formed by 8 start-up groups selected by a social entrepreneur.

neur incubating project Samick Credit Union jointly hosted with the Daegu Metropolitan Government in 2012.

- *(Administrative support) Provided rent-free office space from June 2013 and USD 2,151 per year to help with administrative expenses.*

- *(Cooperative project) Planned events for local residents and members of cooperatives (to which office space was provided) and engaged in volunteer activities, urban rehabilitation projects and economy education for youth.*

#### Details of Cooperative Projects:

- Events for local residents: Planned Neighborhood Alley Festival and organized lifelong education and career education for local residents.
  - Volunteering for the alienated elderly and families: Established Message Factory Cooperative and Education Cooperative. Organized 'Share with the World Campaign' in collaboration with Todak-todak Cooperative.
  - Participated in Dooryu-dong Urban Rehabilitation Project: Participated in a 'My Neighborhood, A Good Place to Live' Campaign
  - Economy education for the youth: Provided education to youth on the economy, finance and vocations.
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- Provided social enterprises with rent-free space in the Samick Credit Union building to help them grow.
    - *Provided the entire six-story building free of rent to social enterprises.*
    - *Created a co-working space inside the building, allowing resident social enterprises to discover a variety of opportunities to collaborate.*

#### Wonju Balgeum Credit Union

- Helped cooperatives discover collaboration project opportunities.
- Provided rent-free office space to Wonju Medical Welfare Social Cooperative and promoted it to the members of Wonju Balkeum Credit Union. Provided a variety of benefits, such as discounts on fees, to the members of Wonju Balkeum Credit Union when they use the services of Wonju Medical Welfare Social Cooperative.
- Became a member of the Wonju Cooperative Social Economy Network to seek collaborative project opportunities with social economy organizations. Presently, 36 social economy organizations are members of the Wonju Cooperative Social Economy Network.