
INFORMATION NOTE

Poverty Combating Strategy in South Korea

1. Background

1.1 The purpose of this information note is to provide the Subcommittee to Study the Subject of Combating Poverty with information on the measures adopted by South Korea to tackle poverty among different social groups, namely people of working age, children and youth, and the elderly.

1.2 The outbreak of the Asian financial crisis in 1997 marked a watershed in South Korea's anti-poverty strategy. Before the Asian financial crisis, public assistance in South Korea targeted primarily those unable to work due to age or disabilities/illness. For example, as a social safety net of the last resort, the Livelihood Protection System only provided livelihood aid to needy people aged under 18 or over 65, and without any person(s) whom they could depend on.

1.3 South Korea's anti-poverty strategy has undergone marked changes after 1997, when the country suffered from the repercussions of the Asian financial crisis.¹ Soaring unemployment and widespread poverty posed a severe challenge to South Korea, where full employment had long been the norm and the social safety net was very limited in scope. To address the problem, the South Korean government has adopted a more pro-active approach in reducing poverty since 1998, including the implementation of a social welfare reform to expand the social safety net to help needy people regardless of their age and working ability. In addition, the coverage of various social insurance schemes has also been extended.

2. Definition and measurement of poverty

2.1 South Korea does not have an official poverty line to quantify the extent of poverty, nor is there any definition of poverty.² Nevertheless, a person is considered as living in poverty and requires public assistance if his or her income is less than the minimum cost of living calculated annually by the Ministry of Health and Welfare.

¹ South Korea's economy suffered a serious setback in the aftermath of the Asian financial crisis and contracted by 6.9% in 1998. The economic downturn, coupled with the ensuing corporate restructuring, raised the unemployment rate from 2.6% in 1997 to 7% in 1998.

² See Jyoung (2003).

2.2 The purpose of specifying the minimum cost of living is for determining individuals' eligibility to receive financial assistance under the National Basic Livelihood Security System (NBLSS).³ NBLSS was introduced in 2000, when the National Basic Livelihood Security Act came into force, to replace the Livelihood Protection System as the social safety net of the last resort. NBLSS guarantees livelihood protection for people whose incomes are below the minimum cost of living without considering their ability to work.⁴ Eligible applicants for NBLSS are entitled to financial assistance which amounts to the difference between their incomes and the minimum cost of living calculated by the Ministry of Health and Welfare.

3. Setting of anti-poverty targets

3.1 The South Korean government has not set out any explicit targets for poverty reduction.

4. Institutional arrangements to tackle poverty

4.1 In South Korea, there is no institutional structure specifically established at the central or local level for tackling poverty. Instead, social welfare schemes are set out and implemented by relevant government ministries to help various disadvantaged social groups.

Central level

4.2 The social welfare system in South Korea consists of three major components: social insurance (e.g. national health insurance, national pension and employment insurance), public assistance, and social services provided to needy families and disadvantaged groups.

4.3 The social welfare programmes are set out and implemented by the Ministry of Health and Welfare and the Ministry of Labour. The Ministry of Health and Welfare is responsible for the policies concerning health insurance, the national pension plan, public assistance and social services. The Ministry of Labour is in charge of the management of the employment insurance scheme and the industrial accident compensation insurance scheme.

³ The Ministry of Health and Welfare sets the minimum cost of living each year based on the inflation rates and the results of a national survey on the minimum living standards conducted by its research arm, the Korea Institute for Health and Social Affairs.

⁴ There is another eligibility requirement for receiving financial assistance under NBLSS. Applicants cannot live with "legal supporters" who are not only legally responsible but also financially capable of supporting them. "Legal supporters" refer to immediate adult family members, such as spouse, parents and children.

Local level

4.4 At the local level, the local governments are involved in tackling poverty through providing inputs to the central government in the design and implementation of poverty reduction policies. Furthermore, they can implement local anti-poverty programmes under the guidance of the Ministry of Health and Welfare.

4.5 In South Korea, non-governmental organizations, such as voluntary welfare organizations and religious groups, also engage in poverty reduction through their participation in the advisory committees established by the government to advise on social welfare policies.⁵

5. Anti-poverty strategies

5.1 The South Korean government has set out "Productive Welfare" as the basic principle for poverty reduction. Under "Productive Welfare", the government seeks to reduce poverty through the implementation of NBLSS to secure a minimum living standard for needy people. "Productive Welfare" has particular relevance for people of working age, as it aims to provide human resources development programmes to support self-reliance of the benefit recipients and expand the coverage of the Employment Insurance System (EIS). While targeting people of working age, South Korea's anti-poverty strategy also focuses on the needs of other social groups, such as children and youth, and the elderly.

Strategy for people of working age

5.2 The South Korean government has recognized the importance of work in getting people out of poverty. As such, it has implemented active labour market programmes through NBLSS and EIS, which feature the provision of a range of work-focused support for people of working age.

National Basic Livelihood Security System

5.3 NBLSS requires able-bodied benefit recipients to participate in the self-reliance support programmes as a condition of receiving financial assistance. The self-reliance support programmes aim to realize the principle of "Productive Welfare" by providing work-focused support to help move unemployed people from welfare to work as soon as possible.

⁵ According to Jung (2005), non-governmental organizations also campaign for the enactment of legislation necessary for the social protection of the disadvantaged groups. For example, they staged a social movement in the late 1990s which successfully pressured the government to introduce NBLSS for the protection of the basic livelihood of needy people in South Korea.

5.4 The self-reliance support programmes are conducted by the Ministry of Labour in collaboration with the local governments. Participants are provided with vocational training, counselling, career guidance and job placement opportunities, which help them gradually develop the willingness and ability to enter or re-enter the labour market.

5.5 NBLSS also provides for disregarded earnings as an incentive to encourage benefit recipients to find work and continue working. Disregarded earnings refer to the earnings from employment that are disregarded when assessing the total income on which public assistance benefit entitlements are based.

Employment Insurance System

5.6 EIS was established in 1995 as a comprehensive system intended to provide income support to workers during periods of unemployment, reduce the risk of unemployment, and promote employment opportunities through job training and human resources development programmes. EIS comprises three components, namely Unemployment Benefits, Employment Stabilization Programme and Job Skill Development Programme.

5.7 Although the introduction of EIS was not intended for solving the unemployment problem caused by the Asian financial crisis, the system has incidentally served as a major route out of poverty for the rising number of unemployed people after the crisis. As such, the coverage of EIS was expanded in 1998 to include both part-time and hourly workers and cover all companies irrespective of their sizes.⁶

Unemployment Benefits

5.8 Unemployment Benefits in South Korea comprise two major components, namely Job-seeking Allowance (JSA) and Employment Promotion Benefits. JSA provides income support for displaced workers during periods of unemployment, while Employment Promotion Benefits serve to promote the re-employment of JSA recipients.

⁶ When EIS was first launched in 1995, it only covered companies with 30 or more employees for Unemployment Benefits, and companies with 70 or more employees for the Employment Stabilization Programme and the Job Skill Development Programme.

Job-seeking Allowance

5.9 As an income support scheme, JSA is available to displaced workers under certain rules and conditions. For example, a JSA recipient must be insured in EIS for at least a specified period. The insured period should be no less than 180 days over the 18 months preceding the date of unemployment. In addition, the reason for job loss should not relate to a serious fault of the recipient. Nor should it reflect a personal choice of the recipient to leave the company without justifiable reasons.⁷

5.10 Apart from serving as an income support scheme, JSA is also designed to encourage the benefit recipients to get off the unemployment benefits and return to the labour market. For example, an able-bodied benefit recipient is required to actively look for a job in order to become eligible for JSA. He or she must register at the Employment Security Centre⁸ immediately upon unemployment and indicates the types of jobs he or she is looking for. In addition, the payment of JSA is suspended if the benefit recipient rejects job offer(s) or training programme(s) recommended by the Employment Security Centre. As a further measure to boost the incentive to work, a benefit recipient who finds a job can keep part of JSA if the earned income is less than a certain threshold set by the Ministry of Labour.

Employment Promotion Benefits

5.11 The Employment Promotion Benefits provide financial incentives to JSA recipients to find a job before the end of the benefit period.⁹ The incentives comprise Early Re-employment Allowance, Vocational Training Promotion Allowance, Nationwide Job-seeking Allowance and Moving Allowance.

5.12 The Early Re-employment Allowance provides lump-sum payments to JSA recipients who obtain stable jobs before half of the payment period has been reached. The allowance amounts to half of the remaining JSA payments that a recipient can receive.

5.13 The Vocational Training Promotion Allowance is available to those JSA recipients who participate in training courses recommended by the Employment Security Centres. The amount of allowance is set by the Ministry of Labour.

⁷ Justifiable reasons include economic restructuring, potential suspension of the operation or closure of the company, geographical transfer of the company and difficulties of the JSA recipient in adapting to new technologies.

⁸ The Ministry of Labour has set up Employment Security Centres throughout South Korea to provide one-stop services for unemployed people. These centres provide integrated services of finding jobs and paying unemployment benefits to people of working age.

⁹ JSA recipients are entitled to financial assistance for a period of 90 to 240 days, depending on their age and years of contribution to EIS.

5.14 The Nationwide Job-seeking Allowance is payable to JSA recipients to support their job searching efforts in areas over 50 km away from their places of residence. The allowance covers accommodation and transportation expenses incurred in the job searches initiated at the recommendation of the Employment Security Centres.

5.15 The Moving Allowance subsidizes the moving costs incurred by JSA recipients when they change their places of residence to take up jobs or participate in vocational training programmes prescribed by the Employment Security Centres.

Employment Stabilization Programme

5.16 The Employment Stabilization Programme seeks to maintain and promote employment in the course of structural changes in industries and technologies. As such, it consists of an employment maintenance scheme which provides subsidies to employers who avoid layoffs and adopt job-keeping measures to retain redundant workers.¹⁰

5.17 The Employment Stabilization Programme contains an employment promotion scheme, which provides financial incentives to employers who hire disadvantaged workers such as laid-off workers, single parents and the elderly. The employment promotion scheme also fosters the development of childcare facilities by providing employers with loans for building childcare facilities and subsidies for employing childcare staff.

Job Skill Development Programme

5.18 The Job Skill Development Programme aims to promote the competitiveness of enterprises, improve the quality of the workforce and provide incentives to individual firms to invest in vocational training. The programme comprises three incentive schemes, namely Assistance to Employers, Assistance to Employees and Assistance for Training the Unemployed.

Assistance to Employers

5.19 Under the "Assistance to Employers" scheme, employers are entitled to subsidies on training costs incurred in providing manpower training and skills development programmes. In addition, subsidies are also provided to employers who grant workers paid leave to attend education and training programmes.

¹⁰ These job-keeping measures include temporary shutdown, reduction in working hours, training, paid or unpaid leave, and dispatching workers to an associate firm or a subsidiary company.

Assistance to Employees

5.20 The "Assistance to Employees" scheme provides subsidies to employees who are going to be laid off or nearing retirement to undergo training for re-employment or starting up their own businesses. Under the scheme, low-interest loans are also available to workers for taking courses in technical colleges and other educational institutions to improve their job skills and knowledge for work.

Assistance for Training the Unemployed

5.21 Under the "Assistance for Training the Unemployed" scheme, workers covered by EIS can get free vocational training if they become unemployed. In addition, unemployed workers who are not eligible for unemployment benefits can receive training allowance during their training period.

Strategy for children and youth

5.22 The anti-poverty strategy designed for children and youth has three complementary strands, namely:

- (a) tackling joblessness, including encouraging female participation in the labour market;
- (b) providing financial support for low-income single-parent families; and
- (c) investing in the early years of children's development and education.

Tackling joblessness

5.23 As discussed in paragraph 5.2, the South Korean government has implemented active labour market programmes through NBLSS and EIS to facilitate participation in employment. The government's active labour market programmes aim to, among other things, help improve the financial situation of needy families, thereby indirectly allowing children and youth in those families to escape from the cycle of poverty.

5.24 The South Korean government has also put in place specific measures to facilitate female participation in the labour market. These measures include the development of full-day (more than eight hours) and extended day (5-8 hours) kindergarten programmes to supplement the normal provision of half-day programmes in South Korea. In addition, grants/subsidies are provided to employers for (i) re-hiring women who left the previous jobs due to pregnancy, childbirth and childcare, and (ii) employing female household heads who have registered with the Employment Security Centres as job seekers. Furthermore, unemployed female household heads can receive financial support from the government for enrolling in vocational training programmes that train them to re-enter the job market or start up their own businesses. They can get subsidies for course fees and receive allowances during the training period.

Providing financial support for low-income single-parent families

5.25 In South Korea, low-income single-parent families are entitled to financial assistance under NBLSS if they live below the minimum cost of living set by the Ministry of Health and Welfare. In addition, they can borrow long-term low-interest loans from the government to start up their own businesses.

Investing in early years of children's development and education

5.26 The South Korean government believes that investing in early years of children's development and education is crucial to the future well-being of today's younger generation. As such, the government implemented the "Supporting Kindergarten Tuition for Children from Low-income Families" programme in 1999, under which families covered by NBLSS could obtain financial assistance for placing their children aged below five in childcare programmes. Needy families with income below a certain threshold set by the Ministry of Health and Welfare are also eligible to apply. The government has also implemented another social welfare programme to provide needy children aged five with one year of free pre-school education and childcare services before starting formal schooling.

5.27 Low-income parents who have children attending secondary schools can receive the government subsidy to cover the school fees. Furthermore, the government provides vocational training to those young people who do not wish to pursue higher education, in an effort to equip these early school leavers with the skills necessary for employment and business start-ups.

Strategy for the elderly

5.28 The anti-poverty strategy for the elderly consists of the following three major components:

- (a) providing income support for the low-income elderly;
- (b) increasing job opportunities through job creation and retention programmes; and
- (c) improving the community services provided to the needy elderly.

Providing income support

5.29 In South Korea, the government provides income support to the needy elderly through NBLSS and the Elderly Pension Scheme. As discussed in paragraph 2.2, NBLSS is a public assistance programme designed to guarantee a minimum standard of living for the needy people. To be eligible for NBLSS, an elderly person must have income below the minimum cost of living set by the Ministry of Health and Welfare, and cannot find any immediate family members who can support him or her.

5.30 The Elderly Pension Scheme was set up in 1999 for the low-income elderly who could not benefit from the National Pension Scheme. While the National Pension Scheme is the main public pension programme in South Korea¹¹, its very short history and the requirement of contribution period have limited the eligibility of the retired elderly for the retirement benefits.¹² As a non-contributory scheme, the Elderly Pension Scheme is exclusively financed by the national treasury and covers only those aged 65 and above who are eligible for NBLSS benefits.

Increasing job opportunities

5.31 In South Korea, job creation and retention are other priorities in the anti-poverty strategy for the elderly. As such, the Aged Employment Promotion Act 2003 sets out 160 categories of jobs appropriate for the employment of the elderly and encourages employers to take on aged workers in these jobs. In addition, the Act also encourages companies to employ a certain percentage of aged workers, e.g. 2% of the total workforce for the manufacturing companies and 6% for the transportation firms.

¹¹ In South Korea, civil servants, military personnel and private school teachers do not join the National Pension Scheme as they are covered under separate pension schemes.

¹² The National Pension Scheme was introduced in 1988 which required at least 20 years of contribution. The minimum contribution period was reduced to 10 years in 1998, meaning that the National Pension Scheme would only start paying out pension to retired people in 2008. For people with a contribution period of less than 10 years, they can only receive a lump-sum refund of the total contributions plus interest.

5.32 In addition, the South Korean government encourages employers to hire and retain aged workers by subsidizing the cost of employing the elderly. There is a subsidy available to employers who have employed aged workers above a certain threshold relative to their workforce. In addition, subsidies are also provided for (i) new hiring of aged workers, (ii) maintaining or re-hiring of retired workers, and (iii) employing unemployed middle-aged and old-aged workers who have completed re-employment training.

Improving community services

5.33 In South Korea, home-help services, day-care services and short-stay care services are available to aged recipients of public assistance for free or at reduced costs. The government offers financial aid to voluntary welfare organizations for building new facilities to run these services and subsidizes the related operational expenses.

5.34 Home-help services are provided by voluntary welfare organizations, such as home-life support (e.g. meal and laundry services, and assistance in housekeeping), escort to hospitals and clinics, emotional support, counselling and education. Day-care services are provided by day-care centres to those elderly whose family members are unable to take care of them during day time. Short-stay care services allow the elderly to stay at nursing homes or elderly centres in the community for a limited period, during which they are provided with care services and medical treatment.

6. Progress in poverty reduction

6.1 According to the South Korean government, South Korea has made progress on several fronts of its anti-poverty strategy, namely income support, employment, and childcare services and pre-school education.

Income support

6.2 The implementation of NBLSS in 2000 has expanded the social safety net in South Korea, with the number of people receiving financial assistance for livelihood protection rising to 3.4 million in 2002 from 540 000 in 1999. The monthly cash benefit payable to an eligible applicant was raised from 98,000 won (HK\$666)¹³ to 204,000 won (HK\$1,387) over the same period.

¹³ The calculation was based on the average exchange rate of HK\$0.0068 per Korean won in 2004.

Employment

6.3 The government's employment strategy has helped improve the labour market situation in South Korea. The number of employed people was increased by 2.6 million during 1998-2004 and the unemployment rate fell from a high of 7% in 1998 to 3.4% in 2004 as a result.

Childcare services and pre-school education

6.4 In 2002, the government supported childcare fees for 154 570 children from needy families. Of this total, 51 016 children or 33.0% came from families receiving financial assistance under NBLSS and 103 554 children or 67% from low-income families. Meanwhile, a total of 113 184 five-year-old children from needy families received free education and childcare services in 2002.

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