Case Study:
Training Levy in South Korea
Small and Medium Enterprises (SMEs) in South Korea

SMEs represent:
• 99% of all enterprises
• 88% of all employment
• Training levy system introduced in 1995

Goal: Encourage enterprises to undertake voluntary worker training programs that improve productivity

Source: World Bank
How does the Training Levy work?

1. **Enterprises pay training levy** of average $1,000 USD (size dependent)

2. **Enterprises undertake worker training programs** and submit a claim to government

3. **Government pays back** enterprises through training rebates for the costs incurred
   - 100% for large enterprises
   - 270% for SMEs
Table 1: Comparison between large enterprises and SMEs (1995)

<table>
<thead>
<tr>
<th></th>
<th>SMEs</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training Levies Rebated (rate)</td>
<td>15%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Enterprises Participating in Training</td>
<td>4.7%</td>
<td>78%</td>
<td></td>
</tr>
<tr>
<td>Workers Participating in Training</td>
<td>4%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Workers Paying Levy (through enterprises’ contribution)</td>
<td>4.5 m</td>
<td>2.4 m</td>
<td>6.9 m</td>
</tr>
<tr>
<td>Workers Receiving Training Rebate</td>
<td>0.2 m</td>
<td>0.9 m</td>
<td>1.1 m</td>
</tr>
</tbody>
</table>

The Problem:

• SMEs are the ones who need the most support in training activities

• SMEs are paying the training levies but **not** actively participating or benefiting from the levy-rebate programme
Why are SMEs not participating in the programme?

Question 1:
10 minutes
Debriefing

1. Why are SMEs not participating?
How can the policy intervention be re-designed to better serve SMEs?

Question 2: 20 minutes
Debriefing

2. How would you re-design the policy intervention?
Recap: Main Barriers to SMEs’ Participation

- Information
- Administration
- Human Resources

- Financial
- Organization/Scale
- Others?
SME Training Consortiums pilot launched in 2001

- Public funds to hire shared Training Managers for groups of SMEs
- **Pilot in 3 cities:** Busan, Incheon, and Kwangjoo
How do Training Consortiums work?

- Local KCCI groups together **30-50 SMEs** in the same area and industry
- Provides funding to hire two shared **Training Managers** per group
- **Operating Committee**: SME members, local KCCI Chamber, Ministry of Labour field office, and training experts
- **Training topics**: management, accounting, tax administration, financial, technical, etc.
# Training Consortiums Pilot Results

## Table 2: Comparison of SMEs before and after the Pilot

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Training Levies Rebated (rate)</td>
<td>24%</td>
<td>48%</td>
</tr>
<tr>
<td>Enterprises Participating in Training</td>
<td>11%</td>
<td>50%</td>
</tr>
<tr>
<td>Workers Participating in Training</td>
<td>3,087 (planned)</td>
<td>6,573 (actual)</td>
</tr>
<tr>
<td># of Training Consortiums</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td># of SMEs in Training Consortium</td>
<td>90 (planned)</td>
<td>240 (actual)</td>
</tr>
<tr>
<td># Training Managers in a Training Consortium</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Lee (2006)
A 2002 survey of what employers said...

- **81%** Improved workers’ job performance and productivity
- **72%** Waste and defective products declined
- **88%** Factory machinery utilization increased
- **67%** Savings in maintenance and repair expenses
Table 3: Expansion of SMEs Training Consortium Program

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Training Consortiums (Cumulative)</strong></td>
<td>6</td>
<td>8</td>
<td>19</td>
<td>30</td>
<td>47</td>
<td>57</td>
<td>69</td>
</tr>
<tr>
<td><strong>Workers Trained (‘000)</strong></td>
<td>4</td>
<td>10</td>
<td>20</td>
<td>38</td>
<td>71</td>
<td>143</td>
<td>295</td>
</tr>
<tr>
<td><strong>Number of SMEs (‘000)</strong></td>
<td>1</td>
<td>3</td>
<td>8</td>
<td>15</td>
<td>33</td>
<td>63</td>
<td>134</td>
</tr>
<tr>
<td><strong>Levies Rebated (Billion Won)</strong></td>
<td>3.2</td>
<td>6.1</td>
<td>14.1</td>
<td>16.8</td>
<td>39.9</td>
<td>45.0</td>
<td>74.4</td>
</tr>
</tbody>
</table>

Source: Ministry of Labor (2006)
Formation of Training Consortiums

Pilot

Korean Chamber of Commerce and Industry

Adaptation – 3 Modalities

1

Korean Chamber of Commerce and Industry

1

Large Buyers and Universities

2

Private Training Providers

3
## Recap: Timeline of Training System in South Korea

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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| 1995 | • Obligatory in-plant vocational training  
• Levy-exemption system  
• Operated through employment insurance |
• Introduced a levy-grant system  
• Deregulation to allow more private training institutes to offer courses |
| 2001 | • SME Training Consortiums Pilot launched  
• **3 cities:** Busan, Incheon, and Kwangjoo  
• 240 SMES and 6,500 workers participated |
| 2003 | • Country-wide expansion of the Training Consortiums  
• Changes to admin and procedures  
• 8,000 SMEs and 20,000 workers participated |
| 2005 | • Added new ways of forming Training Consortiums  
• **3 ways:** KCCI, universities and lead buyers, training institutes |
Innovations and Adaptations

1. Stable funding from Employment Insurance Fund

2. Implementation by private sector (KCCI)

3. Shift to market-oriented training services (more relevant to SMEs needs)

4. Reimbursement provided at time of approval of training rather than after

5. More support for in-plant and on-the-job training, including mobile training
1. Need a differentiated approach to training based on enterprise size

2. Active involvement of private sector in implementation was a key to success

3. Ensure homogeneity of SMEs, loss of consortium benefits if too diverse

4. SMEs must have an active role in the organization and management of Training Consortums

5. Provide adequate number of Training Managers to ensure quality and tailored support

6. Minimize bureaucracy and red tape
Discussion

• What do you think about the Training Consortiums approach in South Korea?

• Is it enough to solve the barriers to SMEs’ participation?

• Can this approach be adapted to other countries?
References

- **World Bank (2009)**: Productivity Increases in SMEs: With Special Emphasis on In-Service Training of Workers in Korea

- **Ministry of Employment & Labour and KDI School (2014)**: In-Service Training Policy in Korea