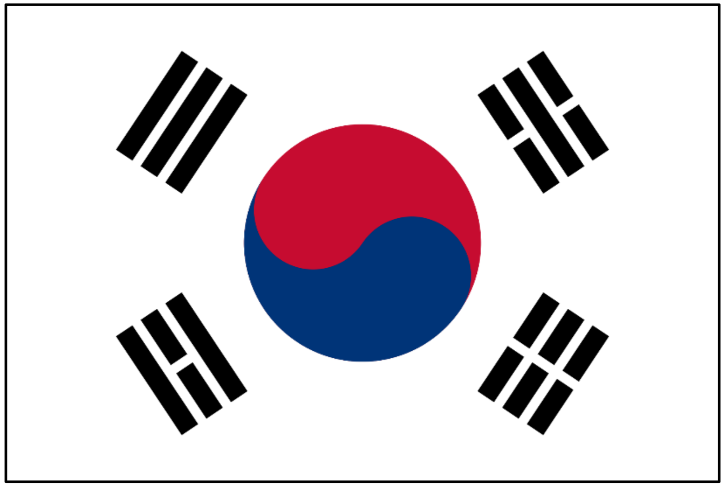
Case Study:

Training Levy in South Korea



Small and Medium Enterprises (SMEs) in South Korea

Source: World Bank

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

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

Regressive Impact on SMEs

Table 1: Comparison between large enterprises and SMEs (1995)

	SMEs	Large	Total
Training Levies Rebated (rate)	15%	30%	
Enterprises Participating in Training	4.7%	78%	
Workers Participating in Training	4%	38%	
Workers Paying Levy (through enterprises' contribution)	4.5 m	2.4 m	6.9 m
Workers Receiving Training Rebate	0.2 m	0.9 m	1.1 m

Source: Lee & Kim (2004)

Group Activity

The Problem:

- SMEs are the ones who need the most support in training activities
- SMEs are paying the training levies but <u>not</u> 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

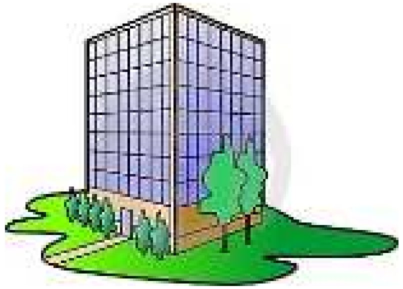
Information

Administration

Human Resources

Financial

Organization/Scale



Others?

What did South Korea decide to do?

Launched by:

Ministry of Labour & Home Affairs

Implemented by:

KCCI
Korean Chamber of Commerce and Industry

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

	SMEs Before Pilot (2001)	SMEs After Pilot (2002)
Training Levies Rebated (rate)	24%	48%
Enterprises Participating in Training	11%	50%
Workers Participating in Training	3,087 (planned)	6,573 (actual)
# of Training Consortiums	0	3
# of SMEs in Training Consortiums	90 (planned)	240 (actual)
# Training Managers in a Training Consortium	0	2

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

Country Wide Implementation of Training Consortiums

Table 3: Expansion of SMEs Training Consortium Program

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

Source: Ministry of Labor (2006)

Formation of Training Consortiums

Pilot

KCCI

Korean Chamber of Commerce and Industry

1

Adaptation – 3 Modalities

KCCI

Korean Chamber of Commerce and Industry

1

Large Buyers and Universities

2

Private Training Providers

3

Recap: Timeline of Training System in South Korea

1995

- Obligatory in-plant vocational training
- Levy-exemption system
- Operated through employment insurance

1998

- Employment Insurance Act of 1998
- 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**

Lessons Learned

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 consoritum benefits if too diverse
4. SMEs must have an active role in the organization and management of Training Consoritums
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