

A Study on the Pricing Policies of Social Services Outsourced to Private Service Providers

December 2017

Nowook Park
Jong-hak Weon
Youngmin Oh
Heewoo Kang
Moonhee Suh

Korea Institute of Public Finance

336, Sicheong-daero, Sejong-si, Korea

Tel: 82-44-414-2114 Fax: 82-44-414-2179

URL: www.kipf.re.kr

© 2017 KIPF

A Study on the Pricing Policies of Social Services Outsourced to Private Service Providers

December 2017

*Nowook Park · Jong-hak Weon · Youngmin Oh ·
Heewoo Kang · Moonhee Suh*

Contents ■ ■ ■

I . Background and Purpose	7
II . Issues Related to the Pricing Policies of Social Services Entrusted to Private Entities	11
1. Types of social services	14
2. Issues Related to the Pricing Policies of Social Services Entrusted to Private Entities	24
III . Pricing Policies for Child-care Services	32
1. Issues and Problems Related to the Cost and Price of Child-care Services in Korea	32
A. Financial Sustainability	32
B. Justification for the Price Regulation and Service Innovation	33
C. Level of Quality of Service	34
D. Strategic Actions Due to Price Regulations, Excess Supply and Excess Demand	35
E. Appropriateness of Price Level	37
2. Policy Suggestion	41
A. Customized Support to Enhance Financial Sustainability	41
B. Quality Improvement by Price Differentiation	42
C. Expansion of Public Day Centers and Institutional Day Care Centers	43
D. Quality Enhancement and Public Release of Related Information	45

A Study on the Pricing Policies of Social Services Outsourced to Private Service Providers

IV. Pricing Policies for the Long-term Care Insurance System	47
1. Analysis of Key Issues	47
A. Financial Sustainability	47
B. Quality assurance	52
C. Room for Service Innovation	53
D. Suppressing Excess Demand	54
E. Providers' Strategic Actions	55
2. Improvement Plan	55
A. Developing a Structure for Actively Reflecting the Demand and Increasing the Room for Service Innovation	55
B. Improving Quality of Service	57
V. Pricing Policies for Vocational Skills Development Projects	58
1. Analysis of Key Issues Related to Vocational Skills Development Projects	58
A. Financial Status and Sustainability	58
B. Quality of Services Entrusted to Private Entities	61
C. Excess Demand	66
VI. Pricing Policies for Employment Support Service	67
1. Issues Related to Pricing Policies	67
A. Financial Sustainability	71
B. Quality Assurance	72

Contents



C. Room for Service Innovation	73
D. Suppressing Excess Demand	74
E. Providers' Strategic Actions	75
2. Policy Suggestions	75
A. Strengthen the Public Organizations' Capacity for Public Administration and Contract Management	75
B. Introduction of a Price Structure Designed to Suppress Private Service Providers' Strategic Actions	78
C. Reinforcement of Room for Service Innovation	79
VII. Summary and policy implications	82
1. Summary	82
2. Policy Implications	86

List of Tables ■ ■ ■

<Table II-1>	Types of Social Services	23
<Table II-2>	Main Issues in Different Social Services	29
<Table III-1>	Customized Child-care Support System	37
<Table III-2>	Total Amount of Monthly Standard Child-care Expenses by Age (2014)	38
<Table IV-1>	Financial Status of the Long-term Insurance System in Korea in 2012~2015	48
<Table IV-2>	Applicants and Recognized Beneficiaries for the Long-term Care Insurance	49
<Table IV-3>	Recognized Beneficiaries for the Long-term Care Insurance (by grade and eligibility)	50
<Table IV-4>	Records of Use of Long-term Care Benefits and the Insurance Corporation's Contribution Rate	51
<Table IV-5>	Insurance Corporation's Contribution in Each Type of Benefit in the Long-term Care Insurance	52
<Table IV-6>	Changes in the Number of Institutions and Their Capacity (2011~2015)	54
<Table V-1>	2015 Youth Employment Support Project Budget(by Project Type) ...	59
<Table V-2>	Budget Items Listed in Detail by Project Type(2015 Youth Employment Support Project)	60
<Table V-3>	Changes in the Employment Insurance Premium Rate	61
<Table V-4>	Integration of the Assessment and Evaluation Process	62
<Table V-5>	Scope of Functions of the Korean Skills Quality Authority	63
<Table V-6>	Evaluation Process	65
<Table VI-1>	Types of Strategic Actions and Possible Countermeasures	69

List of Figures ■ ■ ■

[Figure II-1]	Major Decision-making Areas for the Provision of Social Services ...	13
[Figure IV-1]	OECD (2011): Survey Results of the Most Important Policy Objective for the Long-term Care Service System in the Member States (2009~2010)	47

I

Background and Purpose

This study aims to analyze the status and diagnose the current pricing policies of social services that are provided as a service entrusted to private entities. Increasing the quality of life and protecting citizens from social risk has become one of the most important roles of the government. In line with this international trend, the Korean government is also extending the scope of social services in many areas. Most recently, the government has implemented extended child-care service with an emphasis on its role as universal welfare. In addition, it provides long-term care service, comprehensive employment support service and occupational skills training service in various ways as well as actively promotes initiatives to encourage local governments to develop and offer a new type of social service using vouchers to the community.

The social services listed above have two distinct characteristics. First, they are very specific and focused services provided in person to individuals. Second, the scope of social risk that would be difficult for individuals to deal with by themselves and therefore they would be provided with the government's help has been extended. There are two reasons why these characteristics are highlighted. First, the government provides "care service" in a different way to the conventional welfare service that has been offered as income assistance. Second, it also helps individuals cope with social risks that arise in today's socioeconomic environment that is influenced by rapid technological advances, an extended open economy, and aging population.

The Korean Ministry of Health and Social Welfare defines, in their website, social service as services provided by society to promote the welfare and enhance

the quality of life of individuals or the entire society. It says social services encompasses a wide range of services including public administration (general administration, the environment, safety), social welfare (child-care, protection for children, the disabled and the elderly), health care (care, nursing), education (after-school activities, special education) and culture (operation of cultural facilities including library, museum and art museum) (www.socialservice.or.kr¹⁾). This definition is also similar to a concept that embraces service as defined in the Social Enterprise Promotion Act (Korea) and business operated as social welfare service. Social Enterprise Promotion Act defines social service as service in the areas of education, health, social welfare, the environment and culture and other equivalent services in the areas prescribed by the Presidential Decree.

On the other hand, social service in the strictest sense can be regarded the same as welfare service (Encyclopedia Britannica, global.britannica.com). It refers to service provided to the disadvantaged group and the scope of social service involves poverty, disability, disease, the welfare of children, youth and the elderly.

In addition to those representative services such as long-term care, child-care, and employment support, a range of services are offered including elderly care, activity support for the disabled, maternal and infant health care management, housework helper project for housework and nursing, developmental rehabilitation, language development support program and consultation for the parents of people with developmental disabilities. These social services are also recognized as a source of job creation with their mission to provide social protection to the members of society. In particular, as we face the issue of growth without employment, social service draws attention as a business area that can be an important source of employment since it hires people to offer services.

On the other hand, an issue has been brought up regarding the financial sustainability of social service as financial conditions deteriorate. In particular, considering the Baumol effect where it is more difficult to increase productivity in the service area than in the manufacturing industry, the issue of financial sustainability becomes crucial to the welfare state whose function includes the

1) Introducing the e-voucher system as a social service, the Korean Ministry of Health and Welfare, www.socialservice.or.kr/user/htmlEditor/view.do?p_sn=1 (Date accessed: July 23, 2016).

provision of social services. In western countries who have years of experience of being a welfare state ahead of Korea, an effort is still being made to secure sustainability through new technologies and management reform in the public sector and this issue has been discussed as a government reform agenda that should be addressed in the near future. In addition, further discussion is required about what a sustainable welfare state should be like under the current economic conditions burdened with an aging population and low growth. The scope of social services in Korea is not expanded to the level of western welfare states. However, it is necessary to develop an ideal form of welfare system from the early stage. In this regard, comprehensive studies are greatly needed to increase the efficiency and effectiveness in social services provided by the government.

Studies so far have been focused on, as a separate issue, the way social services are provided and the total amount consumed for the provision of social services. Taking into account that most social services are offered by private organizations, studies on how they provide monetary consideration for the provision of social service and what problems may arise due to the current system are needed since the pricing system for a service is the primary factor affecting its provision and behavior of beneficiaries. This study examines the status of current social services focusing on the issues related to the pricing policies of social services entrusted to private entities. Previous studies on social services in Korea have examined a range of issues including the scope of social services, financing plans, the way services are provided and how to maintain the quality of services; however, little in-depth research has been done on the price level, the methods for determining prices, and the price structure of social services entrusted to private entities. A few studies examined specific social service areas including cost analysis when the price for a service is determined, price decision based on available resources, the possibility of price differentiation based on demand, and incentive for quality improvement to the institutions providing services. However, few studies from the view of pricing policies for a range of areas in social services have been published.

This study presents major issues that may affect the pricing policies of social services entrusted to private entities and performs comparative analyses of child-care, long-term care, employment support and vocational skills development training using examples and cases to draw up policy implications.

Major issues related to pricing policies include examinations of the financial sustainability of the government's support for social services, methods to maintain service quality while ensuring service providers keep a healthy ecosystem, and ways to prevent abuse of service benefits. Consumers of services have a right to select services and suppliers of their choice when seeking quality service. Suppliers of services demand pricing policies with which quality services can be provided and incentive for service innovation can be offered. The main objectives of this study are to find ways to improve pricing policies to meet the needs of consumers and suppliers as specified above.

This study aims to discuss major issues related to pricing policies of social services entrusted to private entities and address directions of improvement by investigating and analyzing the status of current pricing policies of key areas of social services including child-care, long-term care, vocational skills development training, and employment support service. Guidelines will be proposed for the creation of specific pricing policies that match the unique characteristics of each type of social service.

II

Issues Related to the Pricing Policies of Social Services Entrusted to Private Entities

The provision of a specific service by the government can be justified when it is considered public goods. When a certain service has the characteristics of public goods, it is desirable that the service is supplied by the government; otherwise, market failure occurs. Basic economic theory about public goods argues that goods having the two characteristics of public goods, non-excludability and non-rivalry, in their consumption should be supplied by the government to avoid market failure. Non-excludability means, with regard to consumption of certain goods or services, that one cannot exclude anyone who does not pay from consuming them. This may lead to a free-rider problem where one wishes to consume goods or services without paying for them. Non-rivalry means, with regard to consumption of certain goods or services, that consumption of goods or services by one individual does not limit their consumption by others. If the supply of goods or services with these two characteristics is left to the market, under provision may occur. Since social benefit is greater than the cost of supply, private firms or individuals are likely to provide less than the socially desirable level.

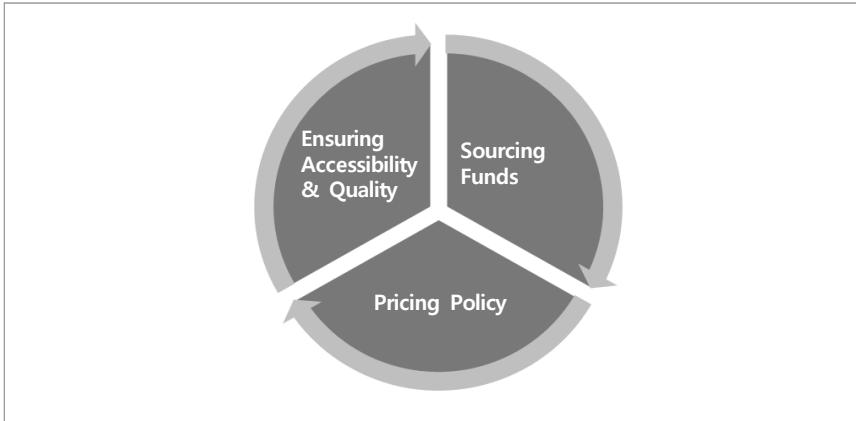
In the real world, there are only a few pure public goods that meet both conditions and they are often difficult to identify. National defense, lighthouses, streetlights, flood prevention systems, police services and public broadcasting are representative examples of pure public goods, but recently the line between public goods and private goods is becoming less distinct with technological advances and changes in value. For example, the service itself is non-rivalry but suppliers of the service are able to prevent individuals from consuming the

service without paying for it with the help of encryption technologies. With the advancement of information technology, large amounts of information previously regarded as private goods have become public goods and begun to be provided free of charge without constraint. As suggested by these examples, it has become more difficult to define public goods or discuss the need for the government's intervention based on their criteria of having non-excludability and being non-rivalry.

Basically, non-rivalry or non-excludability does not apply in social service. For consumers who paid and consumers who didn't, social services such as medical, education, employment support and child-care are excludable in consumption. Social services are also rivalrous in consumption. When social services are provided by the government, there are targets or areas that do not receive benefits since limited resources are invested in specific targets, areas or services. Private markets also exist where consumers are willing to pay more and receive higher quality service in addition to the basic service provided by the government. In this regard, the reason why social services are provided by the government is not because they are public goods, but rather based on the concept of welfare state where the expanded roles of the government include the provision of a social safety net.

Due to the characteristics of private goods, there are many cases where social services provided by the government are carried out by private entities, and it is also provided at an appropriate level as determined by financial conditions and social demand. In particular, when social services are entrusted to private organizations, the roles of government include sourcing funds, determining a pricing system, and ensuring service accessibility and quality. These tasks are not mutually exclusive but rather closely related. The size of available funds affects the price level and scope of services and further influences service accessibility and quality. Conversely, the method of funding and amount of funds supplied can be affected by the consideration of accessibility and level of quality of a socially necessary service. A pricing policy is not an independent system but rather a device that ensures service accessibility and quality while efficiently providing the service within the given resources. In other words, pricing policies are established as a tool to accomplish the policy objectives including financial sustainability, service accessibility, and quality assurance.

[Figure II-1] Major Decision-making Areas for the Provision of Social Services



Source: prepared by the authors

Pricing policies of social services entrusted to private entities consist of the following components: absolute price level of service and level of price differentiation based on demand, quality of service or the level of difficulty in providing the service. Policy areas related to pricing policies include concreteness and intensity of administrative regulations on the provision of such service. Ensuring accessibility and quality of service using pricing policies may be the most effective way in terms of efficiency, however, additional regulation may be applied due to the characteristics of the social service or the limit of pricing policy itself. Key components of pricing policies are largely affected by the characteristics of social services (availability of information on the quality of services, possibility of differentiation in the quality of services, universality of services, etc.), the level of competition among service providers, characteristics of demand for the service (price and income elasticity), the probability of abuse of service, policy objectives of the provision of service, how to source funds, etc. Therefore, by analyzing the issues and status of current pricing policies for each social service in the four major areas, this study aims to identify more generalized directions of pricing policies based on the characteristics of social services.

Absolute price level of a service affects the financial sustainability of the social service in question, market ecosystem consisting of service providers, and quality of service. The level of price differentiation based on the demand influences the severity of abuse of service and the efficiency of spending. The level of price differentiation based on the quality or difficulties in delivering a service affects quality improvement led by the service providers and incentives for service innovation. The intensity of administrative regulation may contribute in maintaining the minimum quality of service. However, if it is excessive, an adverse effect may occur reducing the room for service innovation.

This chapter examines the different types of social services and presents an overview of issues related to pricing policies for each type of social service.

1 Types of social services

Types of social services entrusted to private entities are determined by ① characteristics of the service itself, ② characteristics of service providers ③ characteristics of consumers, and ④ policy objectives. Deciding which of two aspects, universal accessibility or consumers' right to select, is more important is a vital task in establishing policy objectives. In addressing the issue of accessibility vs. right to select, political, social and economic consent on the respective social service is more important than the characteristics of the social service itself.

First, there is a strong tendency for the government to directly provide a service and give financial support to the service provider if a right to access is critical for the service in question. On the other hand, if consumers' right to select is very important, it is more likely for the service to be entrusted to private entities and financial support may be given to the users of the service. In other words, if right to access is of greater importance in a service, a greater level of government intervention to the service tends to be involved.

For the following types of service, having a strong right to access is important. First, the government is legally obligated to directly provide certain social services such as those for the children or the disabled. Second, right

to access needs to be reinforced when services being provided in the market are tenuous. Examples of these services include drug addiction treatment, alcoholism treatment, and problem behavior treatment. Third, if private organizations providing social service are in a monopolistic position because the service market is not developed, the public sector can additionally act as a direct provider to increase accessibility. In this case, the government may temporarily intervene and provide service directly until the private sector market is developed. Lastly, people prefer the government to provide certain social services directly and consistently. This type of service is found when social consent as well as the characteristics of service has a large influence on the way services are provided.

Taking into account the issue of right to select vs. right to access, social services can be categorized into selective services and essential services based on the characteristics of the service and social consent. When certain social services are provided to socially disadvantaged groups and when enjoyment of service is considered to be a universal right of citizens, right to access tends to be considered as even more important. Examples include emergency medical services for the disadvantaged group and general medical services if they are offered by the national health insurance as it is in Korea. For child-care service, the right to select is considered more important if looking at only the characteristics of service. However, if the system is changed so that the government provides universal child-care services, as it is in Korea, the right to access becomes a new important factor.

Second, one of characteristics of service is the level of availability of information on the result of the service. Quality of service can be determined based on how well the service is solving problems it is designed to solve. If information on the quality of service is readily available, a price structure linked to quality can be established when making decisions on pricing policies. This means quality improvement through service innovation can be encouraged using a price structure. In addition, from the point of beneficiaries, if it is easy to recognize the difference in quality, they can exercise their right to select and put pressure on providers to make quality improvement. On the other hand, if it is difficult to measure quality of service, the plan to facilitate quality improvement using price structure would not work well and the government

would have to use other administrative devices to maintain a certain level of quality.

Recent advances in technologies related to big data and artificial intelligence have made it possible to calculate or measure the effectiveness in areas that were considered difficult to evaluate before. Since social service aims to fulfill individuals' socioeconomic needs, a significant part of the results of services can be measured by combining various administrative data or data related to personal income and consumption and estimating changes in beneficiaries' status. As the possibility of making measurements of results of social service becomes higher, it is more likely that the government can successfully drive quality improvement using pricing policies.

For example, standardized performance indexes are available for the results of services related to employment support. However, in reality, performance indexes related to employment support service are not being used systematically, because following up the beneficiaries and producing data related to their employment status in time series would involve a large cost. If employment insurance and health insurance data can be used in the analysis, it is possible to access information about employment status and income level. This means existing administrative data can be systematically used without additional cost.

Third, social services can be classified by the ability of the private sector to provide services. Whether and how a certain social service should be entrusted to private entities is determined by whether there are many providers of the social service in the private sector to form a market. If there is a competitive market operating properly, it means conditions for pushing the entrustment scheme forward are met and pricing policies can be established flexibly so that they can be determined by the market. On the other hand, if a provider of a specific social service exists in the private sector but in an almost monopolistic way, care should be taken when entrusting services to such private entities. The government's role of directly providing services can be reduced but should not be removed. While keeping the government involved, it is desirable to use the provider in the private sector in parallel. Pricing decisions need to be made from negotiations with the provider in the private sector and appropriate levels of price and price structure should be determined by considering cost information and risk factors of the business.

Fourth, social services can also be classified by the characteristics of the users of social service. For users to be able to make a selection, the existence of a competitive market structure, which was explained above, is important and they should be able to judge the quality of service themselves, or easily obtain information about the quality of service. In other words, if users are incapable of making a selection, there is a high probability that the entrustment scheme itself shows low effectiveness and a level of adverse effect that is even greater than the positive effect that may occur. In particular, when services are provided to children or the elderly having difficulty in expressing their opinion and if it is difficult to measure the result of service, the right to select services can only be exercised in a limited way. In this case, the government's role of providing information becomes more important.

Lastly, whether there is a difference in the intensity of demand for the service can be used as a criterion. If the intensity of demand is different depending on the individual, consumers can be asked to pay part of the expense when using the service to increase financial efficiency and prevent abuse of service. In particular, if consumers' right to select is more important than universal accessibility and there is a difference in the intensity of demand, it would be more efficient for the government to apply a differentiated price structure reflecting the intensity of demand than to provide services at a unified price.

As discussed above, social services can be classified by the importance of right to access vs. right to select, whether it is easy to observe and measure quality of service, existence of a market of service providers in the private sector, users' ability to select providers and whether there is a difference in the intensity of demand for service. These are the key factors that may affect decisions whether services should be entrusted to private entities and which types or structures of contracts should be adopted when they are entrusted.

According to the criteria discussed above, social services to be further examined in this study can be classified. First, this can be done by checking whether a service is universally accessible. For child-care services in Korea, as the new administration began in 2013, the government has changed directions to move from selective service to universal service putting emphasis on the right to access. In other words, a new policy was introduced where the

government offered financial support for child-care services for every child. This can be viewed as a shift in perception about the child-care service due to changes in the socioeconomic and political environment and in public opinion, rather than becoming a universal service owing to the characteristics of the service itself. However, since the transformation into universal child-care service was made without adequate consideration of the conditions in the supply market and issues related to financing, it brought about a range of side effects. In 2016, the government decided to change the system and provide customized child-care services to offer differentiated financial support depending on the characteristics of consumers. From these fluid situations, it can be concluded that universality of a certain social service can be determined by a shift in social consent resulted from changes in the socioeconomic environment as well as the characteristics of the service. The characteristics of child-care services also suggest that the right to select may offer more value to the parents in certain aspects.

Long-term care services in Korea have characteristics of social insurance. According to the system, citizens are obliged to pay contributions for long-term care service insurance and the service will be provided when the need arises. Since they need to go through level assessment to be able to use the service, long-term care services function as a selective service. On the other hand, since the right to use the service arises when there is the need, long-term care services offer enhanced universality as well. However, looking at the characteristics of the service itself, the right to select is more important than universal accessibility.

For vocational skills development training, the right to select has more weight than universal accessibility. Employment insurance subscribers are entitled to receive vocational skills development training when they are unemployed. Those currently employed, if certain conditions are met, may access the program by paying a small contribution. Similar to long-term care services, this training service is a service with enhanced universality since they can benefit from the program, which functions as a social insurance, once certain conditions are met. This study has its focus on vocational skills training provided for the unemployed or the employees meeting eligibility requirements rather than on the programs for certain strategic occupations run by the government.

For employment support service, those in the low-income class are entitled to receive employment support service from the government when unemployed. Conditional recipients of basic livelihood security are required to participate in self-support programs and have an option to use employment support service. Those in the Lower-Income Class or the Low-Income Class are also entitled to apply for and receive employment support service. However, vocational skills development training and employment support service are operated by taking applications from beneficiaries and demand for service has not been universally generated.

Social services can be classified by whether it is possible to observe the quality of the service. For child-care service and long-term care service, since the direct consumers of services are children and the elderly, there is a limit in the primary evaluation of the quality of the service. For child-care services, who should evaluate the quality is also a controversial question. Child education experts argue that they should avoid depending solely on the parent's judgment and put more weight on the experts' evaluation. Ideally, it is necessary to observe the development progress of children using the child-care service to evaluate the quality of the service. While agreeing with this approach, child education experts in Korea also argue that there is no well-established methodology that can be used for the evaluation of the quality of service provided by the institutions. Since studies on policies in this area are in progress recently, it is expected that they will draw practical solutions that can be implemented in the field. For long-term care services, while the most appropriate way to evaluate the quality of service is by observing the changes in the patient's status, there is no consensus on this issue.

For child-care services, service providers are accredited following the evaluation of their performance based on the index on the input and the process, rather than on the outcome. For long-term care services, the government is making an effort to ensure quality of service is maintained with the regulations on the input and the contents of the service. Additionally, quality of service can be monitored by conducting a satisfaction survey of beneficiaries, parents of the beneficiaries or the providers of their family.

For vocational skills development and employment support services, it would be difficult to assess the quality objectively if assessment is based only on the

experience of individuals. To determine the quality of services provided by the institutions, unbiased information must be produced such as employment rate, employment retention rate, and wage level of the employees. Compared to child-care or long-term care services, the performance of service providers can be evaluated based on the more standardized indexes. However, for vocational skills development businesses, long-term results can be achieved over a longer period than for employment support services. In Korea, there is a consensus that services should be evaluated based on the standardized indexes. However, in practice, the system of producing these indexes and giving feedback in an organized way is not working properly.

As discussed above, it is not easy to evaluate the quality of a social service based only on the experience of individuals. In many cases, direct beneficiaries may not be able to express their opinions and it is also necessary to collect and analyze performance information systematically. Under the system where the government is responsible for the provision of social services, there is an increasing need for the information, provided by the government, on the quality of services being offered by service providers.

With regard to the issue of the existence of a market of service providers in the private sector, many child-care service providers exist in the market, which creates competitive market conditions. Since free child-care services were introduced unexpectedly, the number of providers is insufficient to meet the demand in some areas. However, this shortage is expected to be solved over time to a certain extent. It should be noted that the level of development of a child-care service market is determined by the level and structure of financial support the institutions are entitled to receive.

For long-term care services, the existing private market has suddenly expanded in ways similar to child-care services, with the introduction of long-term care insurance. Transient problems such as shortage of long-term care institutions and poor quality of service have been reported and the issue of shortage of institutions providing quality service is still unresolved. The small number of long term care institutions is already a problem, but assurances about the quality of service are all the more problematic.

For vocational skills development training, there are multiple service providers in the private sector. In particular, since the government launched a

voucher program called “Tomorrow Learning Card” to help the unemployed and employed receive vocational skills development training, the number of service providers has grown rapidly. However, there is criticism about the reliability of providers in the private sector since they are mostly small businesses. For employment support services, there are designated institutions providing employment support services for the residents in the respective area. These include public organizations such as employment security centers, agencies of the local government related to employment support and private institutions designated for the area providing services entrusted by the government. Temporary help agencies also offer employment support services.

If we look at the users' ability to select in relation to the existence of many providers and the possibility of evaluating the quality of services, social services can be classified as follows. For child-care services, information on the limited number of institutions providing quality service seems to be shared in the market since there is potential demand for kindergartens or day care centers ensuring high-quality services. On the other hand, it is still difficult for individuals to evaluate the quality of services provided by many day care centers and there is a limit to assessment since the direct consumers of services are children who are often incapable of expressing their opinion. In addition, there is a limited supply of kindergartens or day care centers providing quality services that individuals prefer. Consumers' right to select is practically limited as well.

For long-term care services, there are many service providers in a variety of forms. However, except for certain large facilities, most of them run small businesses. In addition, since direct consumers, the elderly, often have difficulty in voicing their opinions, it is not easy for individuals to evaluate the quality of service. While there are many service providers, most selections are made based on accessibility making practical right to select limited.

For vocational skills development training, while it would be difficult for individuals to evaluate the quality of the services provided by general skills development institutions, since the reputation in the market is available to a certain extent and constraints due to accessibility are relatively weak, consumers have the right to select. For employment support services offered by the government, there are institutions designated for the area to provide services to the residents. Here, right to select is limited. Public organizations providing

employment support service are employment security centers, most of which are located in city areas with poor accessibility from county areas.

Next, social services can be examined based on whether there is a difference in demand for the service. For child-care and long-term care services, there is a large difference in the intensity of demand. In other words, consumers have strong intention to make additional payment for quality service if they can afford it. For child-care services, in particular, the difference in the intensity of demand is significantly large from the parent's point of view. On the other hand, the difference in the intensity of demand for differentiated services is relatively small among consumers of vocational skills development and employment support services compared to those of child-care or long-term care services. In other words, the intention to make additional payment for differentiated services is not strong. For vocational skills development training, the system is open for services with higher quality, which users can select to use by making contributions. For employment support services, it is considered that practical demand for the services provided by public organizations is not strong. Quality of service may be responsible for such response; however, for general unemployment, there are many more cases where they look for a job using their own information and personal network. While public employment support services are helpful, those in the disadvantaged group do not have intention to pay their contributions to use any services.

〈Table II-1〉 Types of Social Services

	Child-care	Long-term Care	Vocational Skills Development	Employment Support
Accessibility vs. Right to select	Policy: Accessibility > Right to select Service characteristics: Right to select > Accessibility	Policy: Accessibility > Right to select Service characteristics: Right to select > Accessibility	Right to select > Accessibility	Disadvantaged group: Accessibility > Right to select General consumers: Right to select > Accessibility
Whether to be able to observe the quality of service	Can be evaluated by experts with a focus on the result. In Korea, assessment is focused on the input and process.	Can be evaluated by experts with a focus on the result. In Korea, regulation is focused on the input and process.	Standardized indexes available. Lack of systematic use of the information.	Standardized indexes available. Lack of systematic use of the information.
Private sector's ability to supply	Private market exits, regional difference exists. Potential demand for quality child-care facilities.	Private market exits. Sufficient supply but quality issue exists.	Competitive private market available.	Private market exits.
Users' ability to select	Parents exercise the right to select. Right to select is practically limited unless additional contribution is made.	Adult children exercise the right to select. Quality differentiation among service providers is weak. Users tend to choose their service provider based on the accessibility. Right to select is limited unless additional contribution is made by individuals.	Users have the right to select when using the Tomorrow Learning Card. Plan to apply stricter assessment of the needs of the beneficiary.	Right to select is limited since there are designated service providers in the respective area.
Difference in the intensity of demand for the service	Large difference in the intensity of demand	Difference in the intensity of demand exists.	Small difference in the intensity of demand	Weak difference in the intensity of demand

Source: prepared by the authors

2 Issues Related to the Pricing Policies of Social Services Entrusted to Private Entities

Price is largely determined by the following three factors: production cost, consumers' demand and competitors' prices. Depending on the characteristics of a product or service, the factor that should be used in setting the price is determined. For general manufactured goods or consumer goods, price is decided by setting a certain margin based on production cost. Examples of price determined by the demand of consumers are mostly found in hospitals or travel services. In an oligopolistic market structure, prices are often decided based on the prices of competitors to keep prices similar. In practice, it is necessary to consider these three factors in a comprehensive way and set the price to make a business successful.

Under the circumstances where the government provides social services, profit maximization is not the purpose. Therefore, the affordability of beneficiaries and financial sustainability, if it is funded by the government, are main factors in decision-making. In addition, since most social services are delivered by private institutions rather than directly provided by the government, incentive systems for service providers should be considered. Incentive systems for consumers also need to be taken into account. To overcome the inefficiency of a welfare state, it is important to prevent the abuse of service that is often associated with opportunistic behavior by service providers and consumers and improve the quality of service as well as examine whether the pricing policies are working properly to achieve these policy objectives.

This study analyzes the main issues in pricing policies of social services entrusted to private entities: factors determining price levels of services, whether there is a price differentiation policy based on demand, whether quality of service is reflected in the price, whether there is competition in the service providers' market, possibility of excess consumption of service and possibility of service providers' strategic actions. These policy variables and environment should be considered when developing plans to address issues such as financial sustainability, quality assurance and prevention of the abuse of service. Depending on the type of social service, different plans may be required to

deal with the three issues above. In particular, each type of social service is different in terms of whether pricing policies can be actively used. Since it is important to use pricing policies rather than regulations to bring about desirable outcomes, the main purpose of this study is to first examine whether pricing policies can be used and discuss the directions of development of appropriate pricing policies.

Two factors need to be considered when evaluating the appropriateness of price levels. While this may not apply depending on the method of financing, in general, financial sustainability should be considered in deciding the upper limit of the price. In addition, the cost of the provision of service and appropriate margin should be taken into account in setting the lower limit of the price. To create an ecosystem that offers quality service and facilitates service innovation, it is important to provide an adequate level of compensation. It is also important to examine the various ways cost information can be obtained and used to determine the price. If the government promotes pricing policies putting too much focus on cost, there is a risk that a reduction in service innovation by service providers may occur. Therefore, while they may identify the costs of main activities and reflect them to price, it is not desirable to set the price solely based on the detailed costs. It is also important to establish a decision-making system to decide the amount of markup added to the cost. The system should represent various parties interested and reflect experts' opinions taking into account issues related to financial aspects and the ecosystem of service providers.

Price differentiation policies based on demand and whether the quality of service is reflected in the price should encourage private entities to provide a variety of services reflecting the intensity of demand and set conditions where they are compensated accordingly. Depending on the characteristics of social services, differentiation of quality and contents of service may not be allowed. For child-care services in Korea, differentiated services are restricted according to the government's policies. However, there is an active private market providing separate services. While a range of differentiated long-term care services are available, those based on the government's financial support are not differentiated. For vocational skills development training sessions, while they are provided with unified services depending on the type of training, consumers may choose

differentiated services when using the Tomorrow Learning Card by increasing their contributions. For employment support services, providers are offered an agreement based on their performance. While consumers do not pay differentiated prices, providers are given differentiated support from the government based on their performance. Therefore, there is a possibility of compensation for differentiated services.

Competition in the service providers' market exists for each of the four types of social services. However, the actual level of competition may vary. If competition based on the price differentiation is not possible, competition by quality differentiation should be achieved. If price differentiation based on quality is not possible, quality competition will only occur when there is a possibility to increase the market share. For the child-care services market, potential demand for institutions providing quality services already exists and there is a difference in supply and demand depending on the region. In large cities, since demand is much greater, quality competition may not work properly and side effects such as profit generation by lowering quality may occur. For long-term care services, while many providers exist, it is doubtful quality competition actually occurs. While accessibility is important in child-care and long-term care services, their markets tend to be segmented by area. Therefore, the level of competition in the service providers' market may vary depending on the region in which they operate.

For vocational skills development training, there exists competition in the market. However, since it operates within the institutional framework where it is difficult to have price differentiation, quality of service is less likely to be improved. While there is still room for receiving quality service if consumers' contributions are increased, it is questionable whether there are cases where they actually pay the increased contributions to use training services. There is a criticism that while the market size has grown with the introduction of the Tomorrow Learning Card with the purpose of providing both the unemployed and employed with extensive opportunities for vocational skills development training, the number of training facilities offering quality service decreased and many small-sized institutions began to compete in the market due to the low unit cost set for the government's support. For employment support services, since a right to select was granted in 2016, there is possibility that competition

may occur. Before that, since beneficiaries were not able to choose the service provider, there was no competition based on consumers' choice. There was room for competition based on the performance focused on employment rate in the process of selection of providers for the region.

The possibility of excess consumption of service is highly probable under the current pricing policy structure for child-care and long-term care services. As a result, control devices based on regulations are in place. However, there are still unresolved issues in child-care services as excess demand for the service has been generated with the introduction of universal child-care services. In particular, while child-care at home is more effective for children between age 0~2, the demand for using day care centers has been generated and potential demand was found even with full-time parents. As a consequence, side effects make consumers with a strong intensity of actual demand unable to use child-care services. The government has been attempting to change the system into customized child-care services since 2016. However, due to the strong objection of the beneficiaries under the existing universal child-care system, it remains uncertain whether the original objectives of customized child-care services, suppressing excess demand, and reducing costs can be achieved. Excess consumption has also been found with vocational skills development training. Once certain conditions are met, consumers are given access to a range of services and they can use them to enjoy personal hobbies rather than employment. As a countermeasure, the role of employment security centers in the assessment process has been strengthened. However, it is doubtful whether overworked centers are able to carry out realistic and effective assessment. For employment support services, the issue lies in shortage in demand, rather than excess demand. Many unemployed workers prefer to use their own information and personal networks in their job search activities and both employment security centers acting as a public service provider and private service providers are having difficulties in finding consumers for employment support services.

The possibility of service providers' strategic actions exists for every service. Under the given regulations and price system, providers can engage in various strategic activities to maximize their profit. Representative strategic actions include distortion in the selection process of consumers, differentiation in the contents of service provided depending on the consumer and invisible degradation

of the quality of service. As specific contents of strategic actions may be different for each type of social service, they will be explored in detailed discussions.

This study aims to discuss the main issues related to pricing policies, examine ways to use pricing policies to accomplish policy objectives related to social services entrusted to private entities and diagnose the limitations in the implementation to explore alternatives. The focus is on general principles related to pricing policies, rather than specific improvement plans. While improvement plans for pricing policies may be suggested during the comparison and analysis of four social services, the purpose of this study is to present general principles that should be applied to social services entrusted to private entities.

Table II-2 Main Issues in Different Social Services

Main Issues	Child-care	Long-term Care	Vocational Skills Development	Employment Support
Price level	Set by the prescribed standard fees. Uniformly calculated without considering rent, quality of teaching and hours. Lower than actual expense.	While surveys of financial states of long-term care facilities are conducted to determine the long-term care service fees, they are used only for suggesting the directions in deciding the rate of increase. It is attempted to suppress the rate of increase as low as possible.	NCS training standard fees: set by occupation based on the survey of supply price in the market. It attempts to reflect market price in the Tomorrow Learning Card.	Cost of the provision of service was investigated and used in setting the price for certain services. Since competition between providers exists, the price level is not low.
Price differentiation	For child-care services, the government supports the full amount of expense setting the upper limit within the range of support. No price limit set for expenses for kindergartens. Rate of increase regulated within the rate of inflation. There is a limit in price for special education.	Differentiation by grade level not applied in calculating expenses for certain long-term care services.	<ul style="list-style-type: none"> – Difference in training fees: public agencies vs. private institutions – Tomorrow Learning Card: differentiation in the beneficiary's contributions considering factors including employment rate achieved by the service provider. 	<ul style="list-style-type: none"> – Performance-based incentive for consumers or service providers. – Hope Ribbon: using the Target Accelerator Model, the level of difficulty associated with the provision of service is reflected in the price. – Employment Success Package II: additional performance-based incentive considering the wage level.
Price Adjustment	Child-care support fees are set by the government within the budget upon the consideration of standard expenses. The upper limit of child-care service fees in private day care centers are determined by the Child-care Policy Committee of cities and provinces.	Long-term Care Committee established under the Ministry of Health and Welfare to review long-term care insurance premium rate, special cash benefits and expenses related with benefits for the elderly at home or facility.	<ul style="list-style-type: none"> – NCS training standard fees: adjusted regularly reflecting the market price – Adjust the beneficiary's contribution rate reflecting the employment rate 	The current system do not set the price periodically considering cost of the provision of service and market conditions. Decisions are made by the relevant government agency responsible for the projects.

Current pricing policies

〈Table II-2〉 Continued

Main Issues	Child-care	Long-term Care	Vocational Skills Development	Employment Support
Financial Sustainability	With the introduction of the Nuri curriculum, free child-care services have been expanded and the government's spending increased. Increased spending caused excess demand and financial burden to grow. Conflict exists between the central and local governments with regard to who is responsible for the expenditure.	The rapid increase of aging population and beneficiaries whose grade is acknowledged as a cause of financial aggravation.	<ul style="list-style-type: none"> - The employment insurance fund is responsible for the most part of training fees. No change in the rates in employment security program and vocational skills development program supported by the employment insurance. The number of trainees (the unemployed and the employed) hardly shows a drastic change. Less likely to pose a threat to financial sustainability. 	Since it is supported by the general budget and the employment insurance fund, financial sustainability is not regarded as an issue of importance. However, if the range of beneficiaries of the required employment support services is extended, there is the possibility that financial burden may increase.
Quality Assurance	Due to the price ceiling system, additional fees tend to be transferred to parents. Hours, programs and quality of child-care teachers are relatively low in the day care centers in private sector.	By applying detailed regulations regarding the calculation of expenses associated with the long-term care benefits, minimum quality may be assured. However, incentives for quality improvement are not being provided.	<ul style="list-style-type: none"> - Accreditation for service providers in private sector performed every year (Korean Skills Quality Authority). 	Provision of quality service driven by providing incentives based on the performance. While a certain assessment process is involved in the selection of service providers, there is no accreditation required.
Room for Service Innovation	Due to the price regulations, incentives for service innovation and development of additional services are relatively weak.	No incentives for developing new services are given to the long-term care facilities due to the calculation method of expenses. Since beneficiaries also pay the full amount of fees for services not listed in the list of recognized long-term care services, new demand is not being generated.	<ul style="list-style-type: none"> - Current programs are focused on the vocational skills training for job-seekers or those who wish to change jobs. In the future, it is expected to expand the projects in connection with welfare programs extending the scope to vocational skills training for the low-income class. - In principle, there is room for service innovation since the beneficiary's contributions exist. However, there is no strong demand in the market. 	For the Hope Ribbon project, by adopting the blackbox approach, discretionary authority is given to the service providers in deciding the contents of service. On the other hand, for Employment Success Package projects, since detailed instructions are provided and compliance is required, providers' discretionary authority is limited.

Main issues in pricing policies

Table II-2) Continued

Main Issues	Child-care	Long-term Care	Vocational Skills Development	Employment Support
Suppressing excess demand	Excess demand generated due to free child-care services among full-time housewives. Customized child-care service introduced to suppress excess demand.	The issue of over-invoicing of expenses resulted from the exemption of the beneficiary's contributions has been pointed out.	<ul style="list-style-type: none"> Excess demand exists due to the introduction of Tomorrow Learning Card. Attempted to suppress excess demand by adjusting the beneficiary's contribution rate and performing eligibility assessment. 	Excess demand for employment support services hardly exist. The government is encouraging participation.
Suppressing providers' strategic actions	The supply of private day care centers increased to meet the excess demand and day care centers are organized. Current measures are insufficient to suppress providers' strategic actions. Due to the free child care system, there is the possibility of collusion between service providers and parents. Under the fixed fee system, there is an incentive to lower quality of service to reduce cost.	Low wage issue due to excess supply of care workers. Under the fixed fee system, there is an incentive to lower quality of service to reduce cost.	<ul style="list-style-type: none"> For Tomorrow Learning Cards, there is the possibility of collusion between providers and consumers. 	Providers' strategic actions may include cleaning and parking. Hope Ribbons attempts to suppress strategic actions with the selection processes and contract structures. No explicit countermeasures have been established for the Employment Success Package. However, the Employment Success Package II has recently introduced a new structure giving the consumer the right to select.
Others	Appropriateness of price level: Child-care service fees are, to a certain extent, uniformly set as a standard fee. Expenditures in day care centers are not reflected.			Dual delivery system: public agency (employment security centers providing the required employment support services to the disadvantaged group) and private institutions (responsible for employment support services for young adults and middle-aged people). Issue: allocation of roles between the public agency and private institutions.

Source: prepared by the authors



III

Pricing Policies for Child-care Services

1 Issues and Problems Related to the Cost and Price of Child-care Services in Korea

A. Financial Sustainability

One of main issues related to the pricing policies for child-care services in Korea is financial sustainability. As discussed above, the child-care services' budget was only KRW 300 billion in the early 2000s, but it has grown to nearly KRW 14 trillion and 860 billion in 2014 since the Nuri curriculum, which was designed to provide free child-care services to all income groups, was introduced. Thus, child-care services budget is greater than 1% of GDP. The problem is such increase in the financial support is not desirable in terms of financial sustainability. In particular, there is a serious conflict between the central government and local governments concerning who should bear the burden for the Nuri curriculum budget.

In 2012, the target age of the Nuri curriculum was extended to age 3~5. With the extension, the budget increased significantly resulting in conflict. In addition, following the amendment of the Enforcement Decree of the Local Finance Act last year, each of the education offices was required to plan a budget for the Nuri curriculum within the limit of the financial grants for education. However, superintendents of the office of education in cities and provinces refused to set the Nuri curriculum budget claiming that the local education offices had no reason to bear the burden of funding the curriculum expanded due to

the presidential election pledge, on top of their tight education budget. On the other hand, the government argues that they should use the financial grants for education for the Nuri curriculum budget since the decrease in the number of students leads to lesser demand and reduced expenditure and the resulting surplus should be used for child-care services.

Due to the implementation of the free child-care service scheme, even full-time housewives began to send their child to day care centers resulting in excess demand. Many private day care centers opened to meet the increased demand and this was partly responsible for the rapid increase in expenditure. The cause of the conflict between the central government and local governments is lack of clear discussion on the responsible party since they are faced with the rapid increase in the child-care service budget. Therefore, to ensure financial sustainability while keeping up the principle of free child-care services, it is necessary to control the rapidly increasing financial demand reasonably and establish reasonable standards for deciding who would be responsible for the expenditure based on the detailed analysis on financing methods and the level of financial burden.

B. Justification for the Price Regulation and Service Innovation

In the Korean child-care services market, prices for using child-care facilities are not determined by the supply and demand in the market. The government gives financial support to the child-care facilities and the parents for the full amount of expenses under the principle of free child-care services. It calculates standard expenses and applies a price ceiling system so that they do not charge fees above the standard. While day care centers can determine their service fees autonomously, they are regulated so that they should not increase fees excessively since they also receive financial support from the government to some extent.

There are different views on the government's price regulations. First, those who support price decontrol argue that it would bring in innovation in services and contribute to the improvement of quality. If the price ceiling system is removed and competition is encouraged, businesses providing quality services with low costs will survive. Day care centers will be given strong incentives for service innovation. In particular, if service innovation leads to the expansion

of the user base, the private child-care services market is expected to be revitalized. If child-care service business becomes profitable, a large amount of capital may be brought into the market and the expanded market will create more jobs. This will help enhance competitiveness and prepare for the opening of the market and the inflow of foreign child-care facilities.

On the other hand, there are opposing views against price decontrol. If the purchasing power of consumers in the respective area is not sufficient, price decontrol will not lead to more child-care facilities providing quality services or the resulting demand to use them. In addition, price differentiation may undermine the universality of public services and worsen inequality among different social classes. Under the circumstances where public child-care facilities are not sufficiently available, weeding out small private facilities may also cause side effects of reduced opportunities for low-income classes to use child-care services.

C. Level of Quality of Service

Price level and quality of service are closely related. In general, price regulation is known to limit the diversity in the provision of service and lower the quality of service. This is reflected in the difference in price and quality, such as teachers' expertise, between highly regulated day care centers and less regulated kindergartens. For private child-care facilities, as discussed above, there are cases where fixed child-care service fees cannot reflect the actual operating cost. Side effects²⁾ include some of the expenses being passed on to parents, reduced scope of service and lowered quality. However, there is a debate about the relation between price regulation and quality.

First, if child-care service prices are deregulated, in areas of the middle or higher income class, providers may raise fees pursuing high quality. The reason why the provision of child-care services is limited in affluent neighborhoods such as three richest districts in Gangnam, Seoul is price

2) Unlike public day care centers, many private day care centers refuse to provide 12-hour all-day services to families where both parents work. Compensations for teachers and working environments are poor in private day care centers and incidents of violence against children are frequently reported.

regulation. Price deregulation may lead to capital inflows and increased supply. Consumers in certain social classes looking for higher levels of services will be able to use premium services by paying higher prices. There are play schools or private English language institutes, out of the regulatory system, meeting the parents' demand for differentiated education. If the market functions properly, competition among facilities can help enhance quality and relieve price in other areas.

However, those opposing to price decontrol argue that deregulation may result in cut throat competition and price dumping with lowered quality in many facilities in areas other than in the wealthy neighborhoods including the Top 3 districts in Gangnam. The reason is that, at present in 2016, the number of day care centers is declining due to the excess supply of child-care facilities and the decreased birth rate. In particular, one of the concerns related to the relaxation of price regulation is that it is difficult to guarantee that profits earned with the increased prices will be used in quality improvement when there is excess supply in the market. Furthermore, high-priced child-care services are likely to be provided with a focus on the special activities resulting in undesirable outcomes in terms of child development. Differences in the income earned by parents using day care centers and kindergartens are significant even at present. There are different views on whether it is right, in terms of equal start, to let differences between social classes, such as income, affect the opportunities in child education.

D. Strategic Actions Due to Price Regulations, Excess Supply and Excess Demand

Price control weakens the autonomous price mechanism of the market causing excess supply or supply shortage. Child-care services are under direct price regulation in Korea and several issues have occurred due to the pricing policies. The customized child-care system that recently became controversial was introduced partly because it could help relieve excess demand resulting from price regulation.

1) Excess Supply from the Supplier's Point of View

Price regulation for child-care services in Korea led to an increase in the

number of suppliers unlike general observations. For less regulated kindergartens, excess supply did not occur. In general, price regulation weakens the autonomous price mechanism and results in reduced supply. However, despite the price regulation, the child-care services market in Korea saw excess supply because of the inflows of small-sized capitals. When excess demand of parents was generated due to the free child-care service policy, many small home day care centers opened to meet the demand and receive the government's support since public day care centers were not sufficient. The market had a similar experience when more than 3,900 home day care centers opened in 2012 and 2013 due to the free infant care services. However, while the supply increased, an increasing number of day care centers in the private sector have been closing their business since 2015 due to the natural reduction in demand resulting from the decrease in the number of newborns.

2) Excess Demand from the Consumer's Point of View

Price regulation causes excess demand. For the past 10 years, while the number of children using day care centers has increased rapidly, the number of children using kindergartens has remained steady at 530,000~540,000 for several years prior to the introduction of the Nuri curriculum. The reason behind this trend was the difference in price. While day care centers were subject to price regulation, kindergartens were only partly, or not at all, regulated. This was what had affected the demand directly. For example, since the government was bearing the full amount of costs, even full-time housewives sent their children to child-care facilities generating excess demand. However, fees charged by day care centers were only partly supported by the government and parents had to pay their contributions, which prevented demand from increasing.

To reduce excess demand resulting from price regulation associated with free child-care services and cut down expenditures, the government introduced a customized child-care support system as shown in <Table III-25> in 2016. The new system was designed to place restrictions on the use of all-day classes by full-time housewives. It aimed to cut down government expenditures by limiting the hours of use of day care centers by full-time housewives and reducing the government's support accordingly. However, the existing pricing policies have

caused an oversupply of day care centers and these centers object to the new system arguing that it will lead to reduced profits and further deteriorate the financial situation of day care centers that are having a difficult time because of the decreasing birth rate. The government claims that since the basic child-care expense rose 6% and the pilot project showed more than 80% of applicants made an application for the all-day class, it will not cause profit of the existing day care centers to decrease. It is necessary to follow up the progress to see whether the customized child-care support system can contribute³⁾ to the saving of the expenditure by reducing excess demand⁴⁾.

〈Table III-1〉 Customized Child-care Support System

When using day care centers	Support for child-care expenses	All-day class	Families where both parents work, families with three or more children	12 hours (7:30~19:30) Age 0: KRW 825,000/month
		Customized class	Families not eligible for all-day classes, Vouchers provided to be used in urgent cases	6 hours (9:00~15:00) Age 0: KRW 660,000/month
When not using day care centers	Home Child Care Allowance		Child care at home, child with disability (when registered)	Depending on the age, 100,000~200,000/month

Source: National Assembly Research Service (2016), 『Issues and Arguments』, p. 2

E. Appropriateness of Price Level

In addition to the issues previously discussed including justification of price regulation and excess or shortage in supply or demand, there is a debate about

3) After the implementation of the system, against the government's expectation of 80%, only 73% of applicants chose the all-day class. The government had to make amendments so that families having two children aged less than 36 months would be eligible for all-day classes and the same amount of the Basic Child-care Expense could be applied to both customized classes and all-day classes. It was originally planned to apply reduced amounts of Basic Child-care Expense and Parent's Child-care Expense to children in the customized class. As a result, the government expenditure increased after the implementation of the system due to the increase in the Basic Child-care Expense, relaxation of the eligibility for all-day classes and discontinuance of differentiated payment of Basic Child-care Expense.

4) After the implementation of the system, an increasing number of full-time housewives are involved in fake employment cases in their attempt to register their child in all-day classes.

whether the price level set by the government is appropriate. In this section, the arguments about the fees charged by day care centers and kindergartens will be reviewed.

1) Child-care Service Fees Charged by Day Care Centers

Fees charged by day care centers have been determined based on the standard child-care expense. First, the standard expense that was set for day care centers with a capacity of 50 persons and used in deciding the amount of the government's support will be examined in detail to evaluate its appropriateness. According to the figures, fees for infants are almost the same as the amount set as the standard expense. Fees for toddlers alone would not cover the standard expense, since an average of KRW 45,000 is given as the after-school child-care expense (KRW 70,000 including the payment to teachers, given as the financial grants from the local education finance), they add up to almost the same amount as the standard expense. The price limit is set to KRW 292,000 for private day care centers in Seoul and with the addition of the after-school expense, it will be more than KRW 350,000. There must be advantages in the economy of scale, but they are not considered. Hours of use are not taken into account, either. For infants, it is not reasonable to apply all-day class fees based on the eligibility for using all-day class regardless of hours of use.

〈Table III-2〉 Total Amount of Monthly Standard Child-care Expenses by Age (2014)

(Unit: KRW)

Classification	20 persons	50 persons	77 persons	97 persons	124 persons	142 persons	169 persons or more
Aged 0	755,800	830,500	803,300	800,800	802,600	796,700	800,100
Aged 1	523,500	598,300	500,700	506,600	511,300	506,600	508,900
Aged 2	408,800	482,400	385,900	390,600	396,500	390,600	393,000
Aged 3		366,500	340,500	338,000	338,600	333,900	336,100
Aged 4 or older		328,700	302,700	300,200	300,800	296,100	298,300

Source: Mun-hui Seo, Mi-seon Yang, Jin-a Park, et al. (2013), 『Study on The Calculation of Standard Child-care Expenses』, Ministry of Health and Welfare, Korea Institute of Child Care and Education, p. 174

However, in the field of operation, there was a criticism that the standard child-care expense calculated by the government was too low or uniformly determined. Key issues concerning the calculation of the standard child-care expense are discussed in the following. The first issue is about the level of child-care services, which is not clearly defined. The assignment of and compensation for child-care workers are the most important factors and the quality of various activities and related items including meals and snacks and teaching materials also determines the quality of service. Most studies on the calculation of child-care expenses suggest multiple solutions consisting of practical solution and ideal version. Since there are different levels of day care centers, it is not easy to set a standard level. Estimating payment to child-care teachers based on that of the lowest salary class does not seem to be appropriate. While it seems reasonable to keep the standard menu in the calculation of the expenses for meals and snacks, organic menus should be considered as well. When using a present-based approach in the calculation of the child-care expenses, they have no choice but reflect the present state since the data reported in the financial account records can be a useful reference.

The second issue is the difference between items included in the calculation of the standard child-care expense and those in the statement of expenditures from the actual operation of day care centers prepared in accordance with financial accounting regulations. Expense items such as business promotion expenses and teacher allowances are actually paid in day care centers, but not included in the calculation of the standard child-care expense. The third issue is the exclusion of the opportunity cost for the investment of installation cost and the level of such exclusion. There are investments made into private day care centers by individuals, but the opportunity cost for such investment is not taken into account when calculating the standard child-care expense. In addition, borrowed capital other than the owner's capital is recognized in the approval of day care centers, but it is not reflected in the calculation of the standard child-care expense. Since rent, installation fee, loan and interest payment are recognized in actual expenditures, the application of rules remains inconsistent. The last issue is the fact that the difference in hours of use is not reflected and there is a gap between the hours in the calculation of the standard child-care expense and the allowed hours of use. They applied 8 hours for workers in

the calculation, but allowed hours of use were up to 12 hours.

2) Service Fees Charged by the Kindergartens

Price has been deregulated in kindergartens since 1997, allowing individual kindergartens to determine their own fees. From September 2015, as they began to discuss free education and the integration of day care centers and kindergartens, the need for a certain level of regulation was pointed out and a ceiling system was adopted placing a limit on the rate of increase so that it could not be greater than the inflation rate. Therefore, to some extent, kindergarten fees have been autonomously determined by supply and demand.

Standard education expenses calculated in the studies and actual expenditures are similar, and prices have been kept at an appropriate level. While the standard education expenses calculated in the 2014 study were KRW 574,700 for public kindergartens and KRW 530,400 for private kindergartens, fees obtained from the analysis on the Ministry of Education's public announcement (as of August 2014) were KRW 660,000 and KRW 530,000 respectively. As discussed above, the actual expenditures of the kindergartens were largely reflected in the calculation.

Here, it should be noted that the supply was insufficient to meet the demand before the Nuri curriculum was introduced. The reason was that the price exceeded the purchasing power of consumers. Increasing demand and supply shortage that have been observed since the introduction of the Nuri curriculum resulted from the increase in the purchasing power of the parents led by the government support. In addition, kindergartens fees are charged for a course of about 5 hours. While day care centers fees are charged for 12 hours of use, kindergartens fees are for about 5 hours and after-school program expenses are added separately. In particular, expenses for meals and snacks such as lunch are excluded from the kindergarten fees. While the calculated standard education expense is not used as frequently as the standard child-care expense, the issues related to the level of service and installation expense in the process of calculation are the same as in the standard child-care expense.

2 Policy Suggestion

Present status and issues related to child-care services and pricing policies in Korea have been discussed so far. Despite the drastic increase in the child-care budget, which was introduced to tackle the low birth rate, rigid pricing policies led to a lowered quality of service and a failure in achieving the policy objective initially established to address the low birth rate issue by relieving the burden of child-care. This study suggests alternative policies to solve the issues around pricing policies of child-care services in Korea including ① customized support to enhance financial sustainability ② quality improvement by price differentiation ③ reinforcement of public child-care services and ④ quality management and public release of performance information.

A. Customized Support to Enhance Financial Sustainability

As discussed above, excess supply and demand occurred, which caused higher financial burden to the government due to the free child-care policy for the Nuri curriculum. Due to the increased financial burden, the government is having difficulties in sourcing funds required for services of high satisfaction including hourly child-care services, nanny service and the expansion of public day care centers and the conflict between the central government and local governments is growing serious. To reduce the burden and suppress excess demand, the government has implemented child-care policies including a customized child-care system that places a limit on the use of all-day classes by full-time housewives. However, due to the opposition of the existing day care centers and full-time housewives, the reform failed to save and reduce expenditures. This is a good example showing how difficult the task of increasing the financial efficiency is by reducing the scope of benefits.

However, despite this challenging task, it is necessary to differentiate financial support by income and the characteristics of beneficiaries to enhance financial sustainability. In Japan, differentiated payment of child-care expense is made depending on the income of the family. It is necessary for us to consider differentiated payments by income class to reduce expenditures. The reason is

that spending the budget to give financial support for child-care, even to the high income class, is not justified or necessary. It is also necessary to impose restrictions on the use of day care centers by full-time housewives or make reasonable adjustments to the amount of financial support as they did with the customized child-care support system. However, differentiated financial support based on the characteristics of beneficiaries is very likely to face strong opposition in the market. It is necessary to reduce the opposition against the reform using practical alternatives including payment of child-care allowance directly to full-time housewives while restricting their use of child-care services or giving vouchers that can be used in various programs run by private institutions.

The conflict between the central government and local governments about the financial burden is likely to be reduced if the size of financial support to child-care services is reasonably adjusted. If the adjusted financial support still causes significant burden to the local governments despite the reduced conflict, differentiated contributions to the child-care budget based on the financial conditions of each entity may be considered.

B. Quality Improvement by Price Differentiation

To prevent service fees from being passed on to parents and motivate providers to provide quality services, it is necessary to relax regulations on the pricing ceiling system. The price ceiling system is causing complaints from both suppliers and consumers. Suppliers have difficulties in improving quality with limited budget since cost factors such as rent, differentiated food ingredients, level of competence of teachers, service hours are not reflected in standard expenses and there are many cases where they pass the financial burden associated with additional services on to the parents. Parents, as consumers, are using private day care centers providing services of low quality because public day care centers offering high quality services are limited in supply. Therefore, by allowing price increase in day care centers providing extra services, in addition to the standard expense, the parent's right to select based on the differentiated services should be expanded. Unlike day care centers, prices are less regulated in kindergartens. It is necessary to refer to the system where parents can choose

from a variety of education services offered by the kindergartens. For example, more parents will use child-care services if paid services in early and late hours are introduced for families where both parents work.

In the long-term, it is likely that more day care centers begin to provide quality service with lower prices as competition for service innovation is facilitated if a price increase for additional service is allowed and the parent's right to select is expanded. However, in the short term, day care centers may be faced with the risk of bankruptcy due to the cut throat competition resulting from excess supply associated with increased price. In addition, there is also a possibility that private day care centers may collude in maintaining the current level of quality or even lowering the quality despite the increased price. In this case, the parent's right to select may be reduced or the quality of child-care services lowered despite the price deregulation. In particular, price differentiation among day care centers may deprive the low income class of the opportunities to use quality child-care services.

Therefore, to prevent these side effects, it is necessary to temporarily restrict the rate of increase in fees to be charged for additional services within the inflation rate and conduct rigorous investigations and impose strict regulations on price collusion among day care centers. In addition, the government's financial support to low income class should be expanded to ensure their access to quality child-care services even with the competition between day care centers. Additional financial support can be given to the low income class by increasing the amount of child-care support using the budget secured by removing or cutting down financial support to the high income class when adopting differentiated support scheme by income class. With the increased benefits, lower-income parents can send their child to day care centers and kindergartens where a certain or higher level of quality is provided. However, since direct payment to lower-income parents is likely to be used as living expenses, indirect support with payment to child-care facilities or vouchers is more appropriate.

C. Expansion of Public Day Centers and Institutional Day Care Centers

Another measure to be considered with price decontrol is a gradual expansion of public day care centers and institutional day centers. In many countries, parents

do not prefer public day care centers since the quality of services they provide is poor. In Korea, public day care centers are highly preferred because of service hours, quality of teachers, working conditions and reliable curricula. Even with the high preference, supply is very limited because the percentage of public day care centers is only 6.2%. The situation is different in Japan where public child-care facilities are 47.8% of all child-care facilities and in Sweden whose universal child-care system is well-established with preschool programs. While institutional day care centers are highly satisfactory in providing their services in the workplace, they are only 3.3% of all child-care services.

To expand public and institutional day care centers, it is urgent to secure the budget. To begin with, it is necessary to open additional public day care centers using the budget secured by adopting a differentiated support scheme based on income and other characteristics. With the expansion of public day care centers, it is also necessary to absorb the demand for private day care centers that has been reduced due to price deregulation. In particular, if the prices for using private day care centers are increased, lower-income parents are likely to depend on small-sized private institutions providing services of low quality. The expansion of public day care centers needs to contribute in absorbing the demand from the low-income class. However, in this case, the current system where random drawing is used because of the high preference for public day care centers should be improved to assign a certain amount of quota to the low-income class.

It is more desirable to use the form of financial support rather than impose regulations to have additional public day centers. At present, it is mandatory to have a day care center in the workplace for institutions having more than 300 female workers and 500 full-time employees and a fine is imposed⁵⁾ if the obligation is not fulfilled. However, since the cost of running a day care center in the workplace is greater than the fine, many companies do not observe the regulation. Therefore, it is necessary to encourage target organizations to open day care centers voluntarily by giving them additional tax exemption benefits or subsidies rather than impose restrictions and regulations.

5) For institutions where it is mandatory to have a day care center in the workplace but failed to do so, a fine is imposed twice per year and the amount is KRW 100 million for each event of breach.

D. Quality Enhancement and Public Release of Related Information

There are still many difficulties in enhancing the quality of service even after price decontrol and expansion of public and institutional day care centers. Private day care centers are likely to pursue price increase only by controlling the price, rather than engaging in voluntary competition for service, since they became organized while receiving the government's financial support. Therefore, to improve the quality of service by price deregulation, it is necessary to strengthen the current evaluation and certification system and enhance the competence of child-care teachers. At present, 32,918 centers (79.9%) among the total of 41,221 day care centers have been certified by the Korea Childcare Promotion Institute and it is planned to encourage every center to apply for the certification. However, since the budget for certification is only KRW 11.4 billion, the certification system is being operated as a mere formality.

If additional services are provided following the price deregulation and prices are set for the services, it is necessary to thoroughly review and evaluate the appropriateness of price and the level of quality using the certification system. It is also important to enhance the competence of child-care teachers. Child-care teachers are poorly compensated and rarely trained with professional training programs that would help improve the quality of child-care services. Therefore, it is necessary to expand training programs for child-care teachers to help their professional development and improve the quality of services. To reinforce the evaluation and certification system and expand the training programs for child-care teachers, additional budget is needed.

Lastly, the results of the expanded evaluation and certification system should be disclosed to the parents. The current system evaluates day care centers based on two types of indexes. For the Basic Evaluation, total scores and scores by evaluation area will be disclosed. However, they are overrated and fail to differentiate day care centers. On the other hand, the Advanced Evaluation only opens to the public whether the certification is granted or not making it impossible to differentiate the quality of day care centers. Therefore, by building an integrated information system for child-care services where the evaluation

and certification information of every day care center is available, it is necessary to review a range of information including the overview of the center, price level, quality of service and quality of teachers and disclose them to the public in detail.

IV

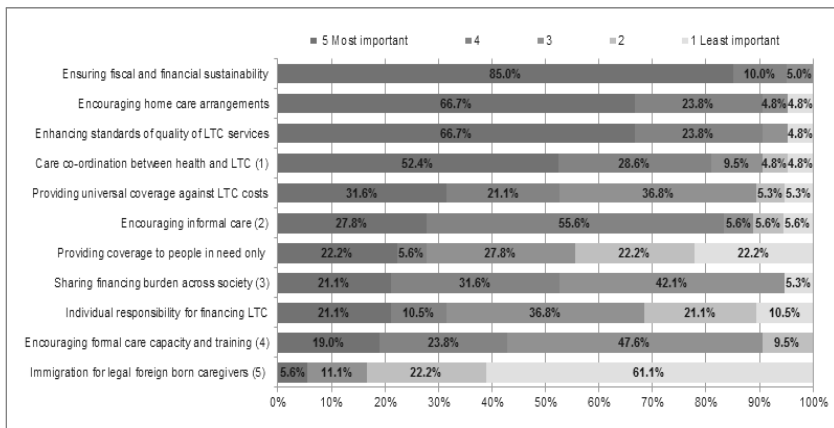
Pricing Policies for the Long-term Care Insurance System

1 Analysis of Key Issues

A. Financial Sustainability

According to the OECD (2011), a survey conducted with the member states in 2009 and 2010 suggests that the most important policy objective for the long-term care service system is ensuring financial sustainability.

[Figure IV-1] OECD (2011): Survey Results of the Most Important Policy Objective for the Long-term Care Service System in the Member States (2009~2010)



Source: OECD (2011) p. 39 Figure 1.1

As shown above, while many countries consider the financial sustainability of the long-term care service system as a high priority, the financial status of the long-term insurance system in Korea has deteriorated gradually. <Table IV-1> shows the financial status of the long-term insurance system in Korea in 2012~2015. It should be noted that the Expenditure to Revenue Ratio (expenditure/revenue) is rapidly approaching 100 and the Difference During the Term (revenue - expenditure) is getting smaller. This means the financial status of the long-term care insurance is deteriorating gradually and this trend is expected to continue.

<Table IV-1> Financial Status of the Long-term Insurance System in Korea in 2012~2015

(Unit: KRW 1,000, %)

		2012	2013	2014	2015
Revenue	Total (A)	3,561,672,883	3,831,212,265	4,148,579,839	4,388,391,899
	Insurance premium (A1)	2,369,669,274	2,542,097,685	2,704,720,549	2,883,322,196
	Government grants (A2)	415,243,000	459,058,000	503,301,000	516,596,000
	Contributions to medical benefit (A3)	701,778,005	743,938,636	802,459,447	884,886,798
	– Central government contributions	29,250,315	35,068,334	36,248,247	35,588,217
	– Local government contributions Others	672,527,690	708,870,302	766,211,200	849,298,581
	Others	74,982,604	86,117,944	138,098,843	103,586,905
Expenditure	Total (B)	2,937,321,848	3,317,961,158	3,849,660,317	4,313,950,244
	Insurance benefit (B1)	2,732,832,824	3,099,533,550	3,598,415,607	4,036,195,047
	– At home	1,329,687,078	1,493,254,561	1,702,269,315	1,968,502,205
	– At facilities	1,396,220,453	1,598,158,349	1,886,698,185	2,057,396,588
	– Family support	983,680	1,026,503	1,154,327	1,244,840
	– Expense for issuing a doctor's note	5,748,117	6,904,112	8,088,445	8,806,265
	– Expense for issuing a visiting care order	193,496	190,025	205,335	245,149
	Management and Operating Expenses	166,255,556	178,158,578	197,666,535	200,241,507
	Others	38,233,468	40,269,030	53,578,175	77,513,690

〈Table IV-1〉 Continue

	2012	2013	2014	2015
Expenditures to revenue ratio (B/A)	82	87	93	98
Insurance Benefit to Insurance Premium ratio(B1/(A1+A2+A3))	78	83	90	94
Difference during the term (A-B)	624,351,035	513,251,107	298,919,522	74,441,655

Source: 『2015 Long-term Care Insurance Statistical Yearbook』, National Health Insurance Corporation, 2016, p.614 〈Table V-1〉 Restructured by the author

The main reason behind the worsening financial situation is the rapid aging of the population. According to the 『2015 Long-term Care Insurance Statistical Yearbook』, the accumulated number of applicants for long-term care insurance was around 790,000 at the end of 2015 and about 470,000 of them were recognized and classified into long-term care grades. Since the rate of increase is greater in the number of recognized beneficiaries than in the population aged over 65, the ratio of recognized beneficiaries to the population of the aged shows an increasing trend.

〈Table IV-2〉 Applicants and Recognized Beneficiaries for the Long-term Care Insurance

(Unit: number of person(s), %)

	2011	2012	2013	2014	2015
Aged population (aged 65 or older)	5,644,758	5,921,977	6,192,762	6,462,740	6,719,244
Applicants	617,081	643,409	685,852	736,879	789,024
Assessed applicants (Graded + Not Graded)	478,446	495,445	535,328	585,386	630,757
Recognized beneficiaries (Recognized beneficiaries to Assessed applicants' ratio)	324,412 (67.8)	341,788 (69.0)	378,493 (70.7)	424,572 (72.5)	467,752 (74.2)
Recognized beneficiaries to total aged population	5.7	5.8	6.1	6.6	7.0

Note: Not Graded refers to the applicants whose recognition point is less than 51.

Source: 『2015 Long-term Care Insurance Statistical Yearbook』, National Health Insurance Corporation, 2016, p. xlix

The most populated group is Grade 3 and General Beneficiaries whose contribution will not be reduced. The number of recipients of the National Basic Livelihood Security and the number of recipients of Medical Benefit (Others) whose contribution is reduced are increasing rapidly.

〈Table IV-3〉 Recognized Beneficiaries for the Long-term Care Insurance
(by grade and eligibility)

(Unit: number of person(s))

	2012	2013	2014	2015					
	Total	Total	Total	Total	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5
Recognized beneficiaries (total)	341,788	378,493	424,572	467,752	37,921	71,260	176,336	162,763	19,472
General (contribution)	249,963	250,117	278,938	303,355	25,023	46,293	114,805	103,260	13,974
Reduced (contribution)	30,113	62,690	74,207	84,446	6,516	13,594	32,694	28,624	3,018
Medical Benefits (recipients)	4,302	4,592	5,190	5,675	422	803	2,139	2,074	237
National Basic Livelihood Security (recipients)	57,410	61,094	66,237	74,276	5,960	10,570	26,698	28,805	2,243

Source: 『2015 Long-term Care Insurance Statistical Yearbook』, National Health Insurance Corporation, 2016, p. xlv

The number of recipients of long-term care benefits and the number of days receiving benefits are also increasing steadily and the National Health Insurance Corporation's contribution rate is rising gradually.

〈Table IV-4〉 Records of Use of Long-term Care Benefits and the Insurance Corporation's Contribution Rate

	2011	2012	2013	2014	2015
Recipients of benefits (person(s))	360,073	369,587	399,591	433,779	475,382
Number of days receiving benefits (10,000 days)	7,938	8,034	8,585	9,223	10,084
Amount of benefits (KRW 100 million)	29,691	31,256	35,234	39,849	45,226
Insurance corporation's contribution (KRW 100 million)	25,882	27,177	30,830	34,981	39,816
Insurance corporation's contribution rate (%)	87.2	86.9	87.5	87.8	88.0
Amount of average benefits per person per month (recipient of benefits) (KRW)	944,916	956,986	996,714	1,024,520	1,057,425
Amount of the insurance corporation's average contribution per person per month (recipient of benefits) (KRW)	823,727	832,132	872,106	899,361	930,917

Source: 『2015 Long-term Care Insurance Statistical Yearbook』, National Health Insurance Corporation, 2016, p. xlv

The records of use of long-term care benefits are listed by type in the following table. For Benefits for Care at Home, Visiting Care is the largest in terms of the amount of the insurance corporation's contribution. For Benefits for Care in Facility, Elderly Care Facility is the largest. The percentage of Daytime/Nighttime Protection is rapidly growing.

〈Table IV-5〉 Insurance Corporation's Contribution in Each Type of Benefit in the Long-term Care Insurance

(Unit: KRW 100 million, %)

	2013		2014		2015	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Insurance corporation's contribution in the long-term care benefits (total)	30,830	—	34,981	—	39,816	—
Benefits for Care at Home	14,864	100	16,748	100	19,376	100
– Visiting Care	11,736	79	13,119	78.3	14,809	76.4
– Visiting for Bath	736	4.9	711	4.2	723	3.7
– Visiting for Nursing	73	0.5	75	0.5	89	0.5
– Daytime/Nighttime Protection	1,279	8.6	1,745	10.4	2,563	13.2
– Short-term Protection	150	1	163	1	154	0.8
– Welfare products	891	6	934	5.6	1,037	5.4
Benefits for Care in Facility	15,966	100	18,234	100	20,441	100
– Elderly Care Facility (under the current law)	12,626	79.1	15,839	86.9	17,892	87.5
– Elderly Care Facility (under the old law)	225	1.4	—	—	—	—
– Specialized Elderly Care Facility (under the old law)	811	5.1	—	—	—	—
– Community House for the Elderly	2,057	12.9	2,394	13.1	2,548	12.5
– Elderly Care Facility (converted from short-term protection facilities)	246	1.5	—	—	—	—

Source: 『2015 Long-term Care Insurance Statistical Yearbook』, National Health Insurance Corporation, 2016, p. xlviii

B. Quality assurance

Within the frame of the current method of calculation of long-term care expense, the minimum level of quality may be maintained, but it would be difficult to give providers incentives for service improvement. The reason is that the calculation method is described in too much detail. In Article 19 of

the same Notification, visiting care expense per visit and how to calculate expenses based on the number of visits and hours of visit are prescribed in detail. For example, expenses for 'A-1' to 'A-6' can be used up to 3 times a day and the interval between visits should be more than 2 hours. If not, hours of use should be combined together to be counted as a single visit. In addition, how to calculate expenses when the hours of use of benefits per visit exceed 270 minutes is described in detail.

Since details of calculation of expenses for other long-term care benefits are specified, providers are given incentives to comply with the provisions of regulations to have their expenses reimbursed by the insurance corporation. However, there are no incentives for quality improvement for benefits not specified in the regulation. For example, for Visiting for Bath, while expenses are calculated based on whether a vehicle is used and whether it is a bath in the vehicle or bath at home, the grade of the beneficiary is not considered in the calculation. However, according to Seok et al. (2009), the difficulty of Visiting for Bath varies significantly depending on the grade of the beneficiary. Therefore, it is difficult for providers to be given incentives for providing different services based on the grade of the beneficiary.

No matter how detailed the provisions of regulations are in describing contents and expenses of benefits, it is impossible to take into account every possibility. Therefore, while the current regulations on the calculation of expenses for benefits may be successful in ensuring the minimum quality, they fail to offer incentives for improving quality of service that is not specified in the regulations.

C. Room for Service Innovation

The number of long-term care facilities and specialized care workers has grown significantly since the introduction of the long-term care insurance system. It is known that the increase resulted from the government's effort to encourage the establishment of long-term care facilities to stabilize the system in the early stage of the introduction.

〈Table IV-6〉 Changes in the Number of Institutions and Their Capacity
(2011~2015)

(Unit: Places, Persons)

	Institutions	Capacity
2011	14,918	147,082
2012	15,056	155,611
2013	15,704	167,915
2014	16,543	184,050
2015	18,002	201,443

Source: 『2015 Long-term Care Insurance Statistical Yearbook』, National Health Insurance Corporation, 2016.

While the size of supply and demand for long-term care services is growing larger, it still lacks the conditions for creating new businesses by the quality of service. As pointed out above, the current calculation method for expenses for long-term care benefits is prescribed in too much detail, there is no incentive for providing a new type of service. In addition, if a beneficiary receives benefits other than those listed in the statement of the recognition, he or she has to bear the full amount of expenses and this makes it difficult to expect new demand to be generated.

D. Suppressing Excess Demand

The most important factor deciding the demand for long-term care benefits is whether the beneficiary is healthy in body and mind (Norton, 2000). Therefore, the previous studies on the financial estimation for the long-term care insurance system estimated demand mostly based on the expected changes in the aged population and their conditions of health. However, according to Jeong (2009), there is a high probability (that is statistically significant) for the recipients of National Basic Livelihood Security to use benefits, even after the income is controlled in the demand analysis for long-term care benefits. When considering the fact that the recipients of National Basic Livelihood Security can use the long-term care benefits for free, this means the price of long-term care benefits has a significant influence on the recognized beneficiaries.

Those who wish to use long-term care benefits are reacting to the price of benefits and this suggests excess demand or complaints about the level of quality of the current benefits may exist. If they believe the price is low for the current quality of benefits, they would request for benefits more than necessary and this may result in worsening the financial conditions and keeping the supply from reaching those who are in dire need of benefits. On the other hand, those who think the quality is too low for the current price would like to use benefits of higher quality even with additional payment. Since they are not allowed to do so under the current regulations, this leads to socially ineffective outcomes.

E. Providers' Strategic Actions

According to Seok et al. (2009), long-term care facilities are taking a range of strategic actions to attract beneficiaries in response to the heated competition resulted from an oversupply of facilities. For example, this has led to unusual situations where facilities provide fewer benefits in exchange for not receiving the beneficiary's contributions or specialized care workers are encouraged to change institutions frequently along with the beneficiary to secure as many consumers using the benefits as possible.

2 Improvement Plan

A. Developing a Structure for Actively Reflecting the Demand and Increasing the Room for Service Innovation

The current long-term care service system has set a limit in the amount of benefits beneficiaries can use for a month. If a beneficiary uses services worth more than the set amount, he or she has to bear the full amount of the expense. In addition, if a beneficiary is provided with services other than those listed in the statement of recognition, he or she should bear the entire cost. As a result, most beneficiaries would not use long-term care benefits unless they are

specified in the regulation and long-term care facilities do not have incentives for offering new services.

For example, according to Seok et al. (2009), the use of Visiting Care for 4 hours or longer is increasing and there is a significant demand for emotional support as well. However, since the provisions for the related expenses are rigid, beneficiaries do not have a communication channel for asking for their new demand and providers are also unable to offer new services when they still have to bear the burden of expenses. Therefore, as discussed above, new services are not generated from both demand and supply sides and this leads to side effects of preventing the long-term care services market as an industry from further expanding.

In this context, it is necessary to consider including visiting rehabilitation services as experts have begun suggesting. Under the circumstances of the worsening financial situations of the long-term insurance system, visiting rehabilitation services act as a preemptive measure that prevents beneficiaries' conditions of health and ability to perform daily tasks from deteriorating.

Certainly, careful consideration is required before deciding to amend the provisions for the calculation method for the purpose of generating new services. If the regulation is amended to allow beneficiaries to use visiting care services for more than 4 hours, a moral hazard may occur as providers will be given incentives for charging more expenses by adding extra hours. They can also choose to offer new services without much improvement in quality resulting in over-invoicing of expenses.

Therefore, to actively reflect the demand for long-term care benefits, it is necessary for the long-term care committee to conduct a thorough verification process before making any amendment while establishing a pricing system capable of accommodating new long-term care benefits. On the other hand, even if suppliers provide new services, demand for the services may not be sufficiently reflected since there is a limit in the amount of the beneficiary's contribution. Therefore, the provisions concerning the beneficiary's contribution should be amended to facilitate demand for new long-term care benefits to the extent a moral hazard can be prevented for the interest of the beneficiaries.

B. Improving Quality of Service

To improve quality of long-term care benefits, expenses should be properly addressed in detail for each of the grades. Although it is certain that expenses for the same contents of benefits may be perceived differently depending on the conditions of health of the beneficiary, etc., they have not been differentiated by grade for certain benefits. As a result, beneficiaries incapable of physical activities may be provided with benefits of relatively low quality. Therefore, for benefits that have already been prescribed, the quality of service should be improved by establishing a pricing system, such as differentiation by grade, where providers can adequately reflect the expenses as they are perceived.

On the other hand, to enhance the quality of long-term care benefits by providing new services that have not been specified in the regulation, it is necessary to develop a calculation method capable of reflecting the contents of new benefits effectively. Since the current calculation method for expenses covers too many details, while it may ensure the minimum quality is kept, it fails to offer incentives for providing long-term care benefits whose quality is better than those specified in the regulations. Therefore, it is necessary to classify expenses for the prescribed benefits to effectively reflect actual costs and at the same time, to develop a new pricing system into which the contents of new benefits can be incorporated.

Given the characteristics of long-term care services, human resource management is critical in maintaining the basic level of quality. Recently, there have been a series of reports on experienced care workers leaving their job because of an insufficient rate of wage increase. It is absolutely necessary to give better treatment and compensations to care workers in the long-term care services market to ensure the quality of the service.⁶⁾

6) Long-term care insurance system on the edge of a precipice: Urgent need for improvement, The Seoulshinmun Daily, October 20, 2016
(<http://www.seoulilbo.com/news/articleView.html?idxno=154404>, Date accessed: November 3, 2016).



Pricing Policies for Vocational Skills Development Projects

1 Analysis of Key Issues Related to Vocational Skills Development Projects

A. Financial Status and Sustainability

The Youth Employment Support Project promoted by the government can be divided into 6 categories: maintaining and supporting unemployment income, direct employment, vocational training, employment service, employment subsidy and start-up support. Excluding the task of maintaining and supporting unemployment income, the last five projects are called active labor market policies and their budget in 2015 is shown in <Table V-1>.⁷⁾

As shown in <Table V-1>, Vocational Training had the largest amount executed with KRW 562.6 billion accounting for 33% of the entire budget (KRW 1 trillion and 690.5 billion). The second largest was Vocational Training and it was followed by other types of projects in this order: Start-up Support, Direct Employment, Employment Subsidy and Employment Service.

7) This study summarized and restructured the relevant data on the budget by project type from Jong-hak Won (2016, pp. 16~19).

<Table V-1> 2015 Youth Employment Support Project Budget(by Project Type)

(Unit: KRW 100 million)

Beneficiaries	Project Type	Budget	Amount executed
Youth	1. Direct employment	3,172	3,088
	2. Vocational Training	7,831	5,626
	3. Employment Service	1,742	1,425
	4. Employment Subsidy	1,977	1,815
	5. Start-up Support	4,953	4,951
Total		19,675	16,905

Source: Jong-hak Won (2016), p. 17

Expenditures for each type of projects are shown by budget item in <Table V-10>. For all project types, expenditures that have been transferred (transferred to private entities, transferred to local governments, contributions, etc.) took the largest share. The ratio was particularly high for Direct Employment and Vocational Training.

<Table V-2> Budget Items Listed in Detail by Project Type(2015 Youth Employment Support Project)

(Unit: KRW 100 million, number of person(s))

Expenditure Item		Youth Employment Support Project					Total
		Direct employment	Vocational training	Employment service	Employment subsidy	Start-up support	
Transferred	Compensation	0	1	8	—	—	9
	Transfer to private entities	1,109	3,510	710	1,590	1,023	7,942
	Transfer to local governments	677	2	29	—	80	787
	Move to overseas	16	0	—	—	—	16
	Contribution	1,192	1,866	336	66	1,808	5,268
	Subtotal (A)	2,994	5,379	1,083	1,656	2,911	14,023
	Ratio (A/C)	96.9%	95.6%	76.0%	91.2%	58.8%	82.9%
Other	Labor	29	1	3	—	—	33
	Goods	65	194	338	159	20	776
	Asset Acquisition	1	52	1	—	2,020	2,074
	Subtotal (B)	95	247	342	159	2,040	2,882
Total (C=A+B)		3,088	5,626	1,425	1,815	4,951	16,905
Number of Person(s)		56,230	127,820	31,797	36,754	7,843	260,444
Amount of financial support per person (KRW)		5,492,339	4,401,612	4,480,712	4,938,555	63,122,168	6,490,840

Source: Jong-hak Won (2016), p. 7

More than 80% of expenses for vocational training were funded by the employment insurance. Therefore, by reviewing the finances of the employment insurance fund, it is possible to determine whether there are sufficient funds for vocational training and whether the current support system can be maintained. At present, the employment insurance fund consists of unemployment benefits, employment security project and vocational skills development project. The changes in the insurance premium rate for each project are shown in <Table V-3>.

<Table V-3> Changes in the Employment Insurance Premium Rate

(Unit: %)

	July 1, 1995	January 1, 1999	January 1, 2003	January 1, 2005	January 1, 2006	April 1, 2011	October 2016
Unemployment Benefits	0.6	1.0	0.9	0.9	0.9	1.1	1.3
Employment Security Project ¹⁾	0.2	0.3	0.15	0.15	0.25~ 0.85	0.25~ 0.85	0.25~ 0.85
Vocational Skills Development Project ¹⁾	0.1~0.5	0.1~0.7	0.1~0.7	0.1~0.7			

Note: 1) Conditions for the differential premium rates changed: Enacted on April 6, 1995: 3 categories (150 persons/small and medium-sized business), amended on May 8, 1997 3 categories (small and medium-sized business→business eligible for priority support), amended on July 1, 1998: 4 categories (150 persons/business eligible for priority support/1000 persons), amended on July 1, 1999: 4 categories (national projects added), amended on December 30, 2005: same conditions for differential premium rates applied to the employment security project.

Source: Jong-hak Won (2012); refer to the Article 12 of Enforcement Decree of the Act on the Collection, etc., of Premiums for Employment Insurance and Industrial Accident Compensation Insurance

As shown in <Table V-3>, the employment insurance premium rate changes in response to the changes in the employment rate (the number of beneficiaries). However, as one can conclude from the fact that the rate for the vocational skills development project remained the same for 10 years from its increase in 2006, the current rate is sufficiently funding the project and it is less likely for the financial stability of the project to be threatened in the future unless there is a considerable reason.

B. Quality of Services Entrusted to Private Entities

Before 2015, several organizations including the Korea Research Institute for Vocational Education & Training, Human Resources Development Service of Korea, and Korea University of Technology and Education managed the quality of services entrusted to private entities for vocational skills development projects in the form of accreditation for those private entities. However, to systematically manage the scattered projects, the government unified the evaluation system with the Korean Skills Quality Authority in Korea University of Technology and Education since April 2015. <Table V-4> shows changes in the evaluation system in summary.

〈Table V-4〉 Integration of the Assessment and Evaluation Process

Evaluation System before April 2015			Evaluation System after April 2015	
Accreditation and evaluation of training institution		Korea Research Institute for Vocational Education & Training	Korea University of Technology and Education	Korean Skills Quality Authority – Accreditation and evaluation of training institution – Evaluation of collective training courses – Evaluation of remote training courses – Evaluation of training projects promoted by central ministries – (Newly added) Evaluation of training accomplishment – (Newly added) Control of fraudulent training
Evaluation of training course	Collective	Human Resources Development Service of Korea		
	Remote	Korea University of Technology and Education		
Evaluation of vocational skills development projects promoted by central ministries		Korea Research Institute for Vocational Education & Training		

Source: Korean Skills Quality Authority website (<http://www.ksqa.or.kr>, Date accessed: October 24, 2016).

〈Table V-4〉 summarizes the contents of projects promoted by the Korean Skills Quality Authority. Vocational skills development projects can be classified into three types: training for the unemployed, training for the employer, and training for the employee. Categories of evaluation include evaluation of training course, accreditation and evaluation of training institution, evaluation of training accomplishment and control of fraudulent training. The Korean Skills Quality Authority takes full responsibility for accreditation and evaluation of training institutions, evaluation of training accomplishment and control of fraudulent training. In addition, it is also responsible for the evaluation of training courses, except for collective training in the Consortium for HRD Ability Magnified Program, corporate university and work-based learning under the category of training for employer.

As discussed above, almost every part of management of vocational skills development projects is under the responsibility of the Korean Skills Quality Authority. It is also managing the education and training programs based on NCS. This means it intends to set appropriate prices reflecting the market price in connection with the quality of service and perform integrated operation.

〈Table V-5〉 Scope of Functions of the Korean Skills Quality Authority

Vocational Skills Development Project Categories		Evaluation of training course		Accreditation and Evaluation of training institution	Evaluation of training accomplishment	Control of fraudulent training
		Collective training	Remote training			
Training for the unemployed	Suitable for general occupations (account)	Korean Skills Quality Authority	Korean Skills Quality Authority	Korean Skills Quality Authority		
	National infrastructure/strategic occupations		—	Korean Skills Quality Authority		
Training for the employer	Employer training	Korean Skills Quality Authority	Korean Skills Quality Authority	Korean Skills Quality Authority		
	Consortium for HRD Ability Magnified Program	Human Resources Development Service	Korean Skills Quality Authority			
	Core Competencies Development Program for Small and Medium-sized Enterprise	Korean Skills Quality Authority	Korean Skills Quality Authority	Korean Skills Quality Authority		
	Corporate university	Human Resources Development Service	Korean Skills Quality Authority	—		
	Work-based learning	Human Resources Development Service	—	—		
Training for the employee	Vocational Skills Development Training for employees	Korean Skills Quality Authority	Korean Skills Quality Authority	Korean Skills Quality Authority		

Source: Korean Skills Quality Authority website (<http://www.ksqa.or.kr>, Date accessed: October 24, 2016).

Accreditation and evaluation of training institution shall be conducted in accordance with Article 53 of the Workers Vocational Skills Development Act.

Article 53 (Evaluation of the Vocational Skills Development Training Facility, etc.) (1) The Minister of Employment and Labor shall evaluate any facility, etc., falling under one of the following subparagraphs for matters prescribed by Presidential Decree including the ability to run training programs, training accomplishment, etc., to enhance the quality of vocational skills development training(Workers Vocational Skills Development Act).

The evaluation agency shall report to the Ministry of Employment and Labor the criteria for the selection of training institutions, evaluation schedules, evaluation criteria, estimation of budget required for the evaluation, staffing of the team, etc., before October 31 annually to develop an evaluation execution plan for the next year(Article 5, Regulations for the Evaluation of Vocational Skills Development Training Institutions).

The Korean Skills Quality Authority in Korea University of Technology and Education evaluates collective training institutions and remote training institutions that have provided training programs that require accreditation and evaluation during the period from January 1 to December 31 of the previous year and performs field evaluations for newly established institutions.

The process of evaluation is shown in <Table V-6>. The Korean Skills Quality Authority makes a public announcement in early January and accepts applications and documents following the information sessions. From March to July, it conducts field evaluations and in principle, it will notify the institution of the schedule at least two weeks prior to the visit. The institution will be notified of the result of accreditation and evaluation online. It will accept any objections and if there is no objection raised, the result will be published on HRD-Net at the end of September.

The evaluation process for collective training programs consists of field evaluation, assessment of conformity of contents and training fees, etc., for new institutions.

Assessment of conformity of contents determines whether the training course is appropriate in accordance with the NCS training standards and for training programs to which NCS does not apply, the evaluation committee will conduct the evaluation. The required qualification for committee members include education and training experience (where the candidate or his/her relatives should not be related to the training facility), a Ph.D with more than five years of

study in the relevant field, a master degree with more than three years of field experience in the specialized area, etc.

Evaluation of training fees determines whether training fees are calculated appropriately based on the NCS standard prices by occupation and the requested fees are in line with the budget items of actual expenses and calculation standards.

The establishment of the Korean Skills Quality Authority has prepared the foundation that enables unified and effective management by integrating the evaluation systems previously scattered among different agencies. Accredited institutions, as consumers, also benefit from the change since they can operate with unified principles and enhanced acceptability. However, transparency is required in the criteria for the evaluation of institutions, evaluation process, etc. With objective and specialized evaluation systems in place, the quality of services entrusted to private entities can be assured.

〈Table V-6〉 Evaluation Process

Process	Contents	Schedule
1. Public announcement of the accreditation and evaluation plan	Public announcement of schedules and standards (2016 accreditation and evaluation)	Early January
2. Information session for the accreditation and evaluation	Host information sessions in major cities and provinces	Mid-January
3. Acceptance of applications and documents for the accreditation and evaluation	Accept online application and self-evaluation report	Early February
4. Notification of the result of the soundness test	Notify an institution of suspension of accreditation if it did not pass the soundness test	Early March
5. Field Evaluation	Notify an institution of suspension of accreditation if it did not pass the soundness test	Early March ~ Mid-July
6. Notification of the result of the accreditation and evaluation	Online notification	End of August
7. Acceptance and review of objections	Accept objections for 7 days from the date of announcement of result Review the objection and notify the result to the institution who raised the objection	End of August ~ End of September
8. Release of the result of the accreditation and evaluation	Post the results on HRD-Net	End of September

Source: Korean Skills Quality Authority website (<http://www.ksqa.or.kr>, Date accessed: 2016. 10. 24).

C. Excess Demand

Possible issues that may occur in the process of entrustment of vocational skills training, such as Tomorrow Learning Card, include excess demand. One of the unique features of the Tomorrow Learning Card is the consumer's right to select a training program of their choice and this may lead to generating unnecessary demand. While those who are currently employed take lessons while doing their job using the Workers' Tomorrow Learning Card, many unemployed users begin to take general education courses using their Tomorrow Learning Card. According to the Board of Audit and Inspection's analysis report on the annual financial statement (for financial year 2014), due to the Tomorrow Learning Card, the number of students who have chosen training programs with low employment rate such as food service increased and certain occupations were strongly preferred over others. To prevent excess demand, adjustments have been made including an increase in the beneficiary's contribution rate for certain occupations. However, it seems they still need more adequate measures to address the issue.

VI

Pricing Policies for Employment Support Service

1 Issues Related to Pricing Policies

In this section, we present, as brief background information, key issues that should be considered for the management of the agreement with private service providers delivering employment support services⁸⁾ and discuss issues in detail as required for the comparative analysis of social services entrusted to private entities.

- Developing plans for suppressing service providers' strategic actions (creaming and parking)
- Plans for appropriately sharing risks between the government and service providers
- Plans for maintaining effective competition in the supply market
- Building central public organizations' capacity for the management of contracts and projects

The first issue is the need for developing plans for suppressing service providers' strategic actions. Representative strategic actions that may be observed following the introduction of performance-based contracts for employment support services include creaming and parking where the former refers to making a selection of participants having less difficulty finding a job and the latter is

8) Issues raised here have been discussed continuously by Park et al. (2010; 2011; 2012).

about providing the minimum service for participants whose probability of finding a job is very low while concentrating the provision of services on those with higher probability. In other words, if performance-based contracts are introduced in the employment support services market, there is a possibility that services to the disadvantaged class may be neglected.

To suppress these strategic actions by the service providers, two key measures can be suggested. The highest priority measure is measuring and reflecting the level of difficulty of finding a job to the structure of contracts. However, when it is not possible to properly measure how difficult it is for the participants to find a job, alternatives such as the target accelerator model adopted by the Hope Ribbon Project may be considered.

Another measure is to monitor strategic actions of institutions delivering services and reflect them in their contracts for the next term. In other words, if an institution's strategic actions are considered excessive, their risk of being excluded from the candidates for the contracts for the next term will be increased. There is a limit in this plan where it may be difficult to suppress short-term strategic actions if they have given up the chance to renew their contract. In addition to these countermeasures, there are a range of solutions for this matter. Key countermeasures suggested by Park et al. (2012) are listed below.

Second, it is necessary to explicitly consider the issue of risk sharing between the government and private institutions. Major risk factors in employment support projects include employment conditions in the specific area and the uncertainty in the number of participants for a project. Employment conditions may change with fluctuations in the economy and this will affect the difficulty of getting a job and the number of participants. Changes in the number of participants for a project will directly influence the income of the institutions providing services.

These risk factors can be incorporated into contracts in two ways. These include making conditions of performance-based contracts literally change depending on how much risk factors have changed as well as specifying the possibility of renegotiating afterwards in the contracts. In other countries, there have been contracts with prescribed conditions for cases where the unemployment rate moves out of a certain range.

〈Table VI-1〉 Types of Strategic Actions and Possible Countermeasures

Strategic Action	Countermeasure	Present status and directions for improvement
<p>Creaming (strategic action associated with the selection of beneficiaries)</p>	<p>Enabling a separate independent organization to perform the selection of participants for the project</p>	<ul style="list-style-type: none"> For the current pilot project, since the local government selects participants of the project, creaming is less likely to occur. However, if the local government's interest is linked to the success of the project, it is possible for creaming to occur. Since the local government is also responsible for selecting participants for other projects in parallel, it is necessary to solve the issues of administrative complexity and miscommunication.
<p>Parking (strategic action associated with the provision of services)</p> <p>* If it is very difficult for the disadvantaged class to find a job due to the economic conditions, it may be desirable for the providers to offer services, even as a strategic action, to increase the employment rate. While excessive parking may be a problem, it is impossible to prevent a certain level of parking from occurring.</p>	<p>Incorporation of profiling factors in the performance-based contracts</p>	<ul style="list-style-type: none"> The current pilot project does not include profiling factors. The government should consider incorporating basic profiling factors in the performance-based contracts at the early stage of the main project using the data collected during the pilot period. The key point of this plan is securing an independent and specialized institution capable of conducting profiling.
	<p>Payment of performance-based bonuses with varying amounts depending on the employment rate (target accelerator model)</p>	<ul style="list-style-type: none"> A few experts in the U.K. have been supporting this measure since 2006. A complex device such as profiling is not required. However, the government needs to explicitly encourage providers to deliver services to those with higher probability of finding a job first.
	<p>Performance-based contract that can be adjusted afterwards</p>	<ul style="list-style-type: none"> Actual amounts of services provided, the labor market conditions and accomplishments shall be determined and compensated. This system has never been implemented in practice. In some cases, a bonus can be given afterwards without a prescribed amount or criteria.
	<p>Use of the results of the satisfaction survey</p>	<ul style="list-style-type: none"> The satisfaction survey has not been conducted continuously. The result of the satisfaction survey for the first year suggests it is very likely meaningful information would not be produced unless the satisfaction survey is conducted properly. A significant amount of effort and investment is required to ensure the representativeness of the samples interviewed and conduct a practical survey.

〈Table VI-1〉 Continue

Strategic Action	Countermeasure	Present status and directions for improvement
	Setting the minimum standard for a service	<ul style="list-style-type: none"> – The current performance-based contract includes a prescribed minimum standard for the service. However, the minimum standard in quantity alone would not be sufficient to suppress the strategic action of concentrating effective services to a specific group.
	Use of an accreditation system	<ul style="list-style-type: none"> – Operation of a system that gives accreditation to providers based on the quality of service and accomplishment. – The accreditation system may affect the reputation of providers and can be used in the contract for the next term. – Star rating system was applied to a project having three contract periods in Australia. The contract for the next term will be automatically approved if a provider meets the prescribed evaluation criteria (3.5/5).

Source: Park et al. (2012) p. 115

Third, maintaining effective competition among service providers is essential in ensuring the effectiveness of a project is kept as well. If there is an institution providing services in a practically monopolistic position in a specific area, the government is likely to surrender to the institution's pressure for higher profitability. Being knowledgeable about the respective area largely affects the project accomplishment since networking with local employers is important in delivering employment support services effectively. Accumulation of knowledge on the local situations is very likely to make it difficult for other providers to enter the market. If effective competition does not exist, the government will be standing in a disadvantageous position in the negotiation with the service provider. As in the cases in other countries, this may lead to higher renewal rate of contracts in the relevant area. Only a few competitive institutions will survive over time and the number of institutions providing services will decrease.

It is important to create conditions where competition among service providers will exist. For the Hope Ribbon Project or the Self-sufficiency Project,

only one service provider was selected for the respective service area. Thus, it is highly probable that the chosen provider takes up a monopolistic position in the area. However, if there is uncertainty in renewing the contract as well as a possibility for other providers to participate in the contracts for the next term, a contestable market where competition actually exists may be formed.

Lastly, the government's role should be changed to that of a contract manager and its competence should be reinforced for the successful operation of employment support services entrusted to private entities. The capacity to design and manage the contracts as well as recognize and monitor beneficiaries is required. The structure of contracts should be continuously managed in response to the changes in the business environment and policy objectives, rather than determined once and kept the same. In other words, for services entrusted to private entities, the capacity to perform continuous management of contracts is required.

The government should also be able to manage and source participants for the projects. The government's roles include identifying the characteristics of beneficiaries to assign them to the institutions providing the required type of services as well as monitoring the activities of participants, changes afterwards, etc. While it is possible to let private institutions perform selection and assignment of participants, it is considered a public function in many countries. To solve the issue of strategic selection of participants (i.e., creaming) by addressing the root cause, the government needs to take the responsibility.

A. Financial Sustainability

For employment support services, financial sustainability itself is not an issue. The Hope Ribbon Project and the Employment Success Package discussed in this study are basically a general budget project and a part of expenditures related to incentives are funded by the employment insurance fund. Since the size of budget can be adjusted flexibly depending on the budget or project conditions, there is no argument about the financial sustainability itself. However, there may be debates about the effectiveness of outcomes compared to the input. It is natural that effort to enhance the effectiveness of projects is required. Since there was a consent on the policies on the need of comprehensive employment

support services, the investment in businesses in this area is growing and it is considered increasing effectiveness is necessary to support the expansion of investment.

However, whether the price level is appropriate for the provision of comprehensive employment support services should be further reviewed. For the Hope Ribbon Project, the compensation paid the institutions providing services at the early stage of the pilot project was reduced at the later stages. Behind this change, there were reduction of fixed costs due to the continuance of the project and facilitated competition among providers in the market. During the pilot project period of the Hope Ribbon Project, by combining two functions, evaluation by the Korea Institute of Public Finance and monitoring by the Central Self-Sufficiency Foundation, it was possible to improve contract structures including prices. In the process of price decision for employment support services, a decision-making process that is operated periodically considering effectiveness and efficiency should be institutionalized. It is also necessary to develop and monitor efficiency indexes such as cost per person for finding a job and cost per person for keeping a job to manage the effectiveness of the project compared to the cost.

B. Quality Assurance

For comprehensive employment services such as the Hope Ribbon Project and the Employment Success Package Project, the quality of services is ensured by giving incentives in accordance with the pricing policies. The Employment Success Package Project has suggested incentives to the participants of the project and gives certain types of incentives to the providers as well. In the Hope Ribbon Project, performance-based bonuses are given to the institutions providing the services to ensure the quality of services. This project decided to introduce explicit performance-based contracts in an attempt to improve the way the existing self-sufficiency project was operated. Rather than regulations or supervision, pricing policies were chosen as a device that ensures the quality of services. Due to the characteristics of employment support services, it is relatively easy to measure accomplishment of services and also ensure the quality of services using price structures.

For the Employment Success Package Project, while the participants were given incentives, the institutions providing the services were not offered any incentives based on their performance. However, recently the system was changed so that the institutions are also given a certain amount of incentives. Here, it is necessary to review whether the participants should be given incentives. To enable participants to concentrate on job-seeking activities and reinforce incentives for job-seeking, actual cost will be reimbursed and incentives will be given to the successful participants. Reimbursement of actual cost may be justified in part from the welfare aspect, however, it is doubtful whether the provision of incentives for the success in finding a job can be justified. In particular, there is a risk that giving a one-off incentive may cause the beneficiaries to take distorted actions. It is possible to accept a job, even when it is below the level one would keep in the long term, to receive the one-off incentive. In other words, there is an incentive for focusing on only getting a job that meets the requirement of the incentive and keeping it. Therefore, it is necessary to examine whether an additional one-off incentive should be given, whereas getting a job itself fails to become an incentive for the beneficiaries.

C. Room for Service Innovation

The room for innovation in employment support services is within the possibility of innovation in the contents of services. The ideal way to provide room for innovation is offering economic incentives based on the accomplishment and giving the providers as much autonomy as possible. This is a so called blackbox approach. Most countries where employment services are entrusted to private entities chose the blackbox approach. Instead of prescribing the specific contents of services and interfering with the work, they encourage the providers to use their expertise and achieve accomplishment. In the USA and Australia, institutions specialized in employment support services are turning into commercial enterprises and expanding their services globally. A new business has started as a social service, employment support service, creating jobs and profits. However, the problem with the blackbox approach is the contents of service innovation will not be shared with other institutions and become an

exclusive property of the respective private institution. In particular, if a commercial enterprise is providing employment support services, the government cannot force them to share their expertise with others.

The Hope Ribbon Project adopted this blackbox approach and the level of satisfaction was significantly higher among the institutions. Some of them were keen to grow into a national non-profit organization from their current position as a local non-profit institution. On the other hand, the Employment Success Package Project published a standard manual describing the contents of services and made the providers follow the instructions. The response of institutions providing services was that there is little room for exercising their expertise with regard to the contents of the project. Since it is relatively easy to manage performance based on the actual result for employment support services, it seems that imposing excessively detailed regulations on the contents of services is not appropriate. Adopting the blackbox approach as widely as possible provides room for service innovation that can be an effective measure to improve performance in services entrusted to private entities. By giving incentives and room for service innovation, it is necessary to develop conditions that help employment support services step forward and grow from a public service to a new business area.

D. Suppressing Excess Demand

It is considered that excess demand is not an issue in employment support services. On the contrary, the government is encouraging and forcing participation in the employment support programs. To prevent beneficiaries from becoming complacent with welfare benefits, an effort is being made to make it obligatory to participate in employment support services. The reason why excess demand is less likely to occur is the strong pressure applied to the beneficiaries when they use the employment support service. Unlike vocational skills development services, since employment support services puts a strong focus on their connection with employment, there are few incentives for participants to generate excess demand.

E. Providers' Strategic Actions

One of the biggest issues that may occur if employment support services are entrusted to private entities is the strategic actions by service providers. Since the level of difficulty for finding a job is different for everyone, providers can select those having less difficulty getting a job or concentrate their services on certain participants to produce outcomes more easily. These are what they call strategic selection for participants (Creaming) and strategic provision of services (Parking).

For the Hope Ribbon Project, the government attempted to tackle this issue by selecting the participants itself and reflecting the level of difficulty finding a job in performance-based bonuses with the target accelerator model. On the other hand, the Employment Success Package Project does not have an incentive system for the providers in place that reflects the level of difficulty in getting a job. Since there is room for selection in the providers' recruiting process of participants, the risk of strategic selection (creaming) arises and strategic provisions of services (parking) by concentrating services on certain targets may also occur. It is necessary to develop a system for analyzing and responding to the incentive system issue in the Employment Success Package Project as well.

2 Policy Suggestions

A. Strengthen the Public Organizations' Capacity for Public Administration and Contract Management

Public organizations that provide employment support services include employment security centers and a range of job centers in the local government. The Ministry of Employment and Labor offered employment support services based on the employment security centers and later expanded its business by entrusting a part of it to private entities as the Employment Success Package Project grew rapidly. At the early stage, there was criticism about its strategic

actions as employment security centers made the private institutions serve the participants having difficulty in finding a job while they focused on job-seeking cases whose level of difficulty was low. In response to this criticism, the system was changed so that the centers were required to serve a certain proportion of participants from the disadvantaged group. Since 2016, different roles have been assigned and employment security centers now take responsibility for the Employment Success Package I for those in the disadvantaged group while the Employment Success Package II for the young adults and middle-aged people (those not in the disadvantaged group) is entrusted to private entities.

The in-depth evaluation on the government's employment support projects in 2016 pointed out employment security centers were overburdened and becoming an administrative agency. From the angle of human resource management within the center, there is also a criticism about weak incentives for providing adequate services because employment consultants were less motivated due to the staff level issue. In other words, employment security centers are an organization of public officers and they do not have the capacity or incentive system to perform both administrative functions related to unemployment benefits and employment support services.

The performance indexes for employment support projects have been standardized in previous studies and several business models entrusting services to private entities have been implemented in many countries. There is controversy about the comparative advantages in performance between public and private organizations; however, an organization whose characteristics are suitable for effective service delivery must have advantages in achieving accomplishment. Employment support service is a representative social service that has become a profit-making business model because performance measurement is relatively easy and the key factor for achieving accomplishment is a customer-oriented service focusing on case management.

It is considered appropriate that the government should produce basic information related to employment support services, design and manage contracts with service providers, and take responsibility for monitoring and evaluating the performance of the business. The current governance structure of human resource management in employment security centers has failed to create favorable conditions for achieving service innovation and delivering

customer-oriented services. In addition, they must spend time fulfilling their responsibilities in processing administrative work related to unemployment benefits.

There is also a risk when the provision of services depends on private entities. For employment support services, monopoly or oligopoly may naturally occur over time since local networks are very important. Here, how to create a competitive environment is an important issue. Maintaining non-profit or public agencies delivering services in part can be a response strategy to such risk. However, it is necessary to establish a public organization that focuses on the provision of services to perform this role. With the current employment centers where administrative functions and the role of providing services are mixed, it is difficult to avoid the former outweighing the latter.

Since 2016, training programs have been introduced to strengthen competencies of the staff in employment security centers and private institutions. While running these programs would be a meaningful effort, it is necessary to reexamine whether it is desirable to provide employment support services as a public service where the government presents specific manuals and training contents. For employment support services with a focus on case management, there may be certain parts that can be stipulated. However, a significant part of them allows the institutions providing services to accumulate their own expertise and provide differentiated services. It is necessary to examine whether it is appropriate to manage even the services provided by private institutions using the standardized work manuals and training contents provided by the government or public organizations. In the middle- and long-term, it could be more desirable to concentrate on result-based performance management and leave the practical development and innovation of service contents to the private institutions.

For employment security centers, managing projects entrusted to private entities itself can be an additional workload. In addition, expertise is required in managing contracts and monitoring and evaluating performance. Since employment security centers are burdened with administrative functions, comprehensive employment support services with a focus on case management, and even management of projects entrusted to private entities, their capacity and basic roles must be reexamined. Building a structure where the centers

perform key functions as a public organization including administrative work, contract management and performance monitoring and evaluation while encouraging private institutions to take responsibility for development of and innovation in the contents of services can be an effective and sustainable solution.

B. Introduction of a Price Structure Designed to Suppress Private Service Providers' Strategic Actions

A common issue that may arise when entrusting employment support services to private entities is service providers' strategic actions. For employment support services, since it is possible to measure the performance of the business using employment rate, sustained employment rate, wage level, etc., they often offer incentives in the form of explicit performance-based contracts. In Korea, the Hope Ribbon Project started with explicit performance-based contracts and the Employment Success Package Project has adopted the performance-based contract structure.

Typical strategic actions taken by service providers include creaming and parking. Creaming occurs when providers place a focus on beneficiaries having less difficulty in finding a job during the selection process. Parking refers to a strategic action where providers concentrate their services on the beneficiaries if the level of difficulty for them to find a job is low, while providing only the minimum service for those who do not meet the conditions. The creaming issue can be tackled if the government exercises the right to select the participants and assigns them to the providers. For the Hope Ribbon Project, since the local governments identified and assigned participants, significant instances of creaming were not observed. However, for the current Employment Success Package Projects, the private providers are allowed to recruit participants and there is an incentive for recruitment rate. In other words, the opportunity for creaming exists. In practice, it is reported that they are having difficulty in recruiting participants for the project and incentives are being offered based on the recruitment rate due to the difficulties. In fact, it is necessary to examine whether the budget is too large considering the size of the demand. If the circumstances are such that they are short of participants, incentives for the providers will work in a way that encourages them to recruit every possible

participant rather than engage in creaming and thus the creaming issue would not be significant. Since the occurrence of creaming varies depending on market conditions, the relevant information needs to be monitored.

Parking is likely to occur when the level of difficulty of finding a job is not reflected in the performance-based contracts. Profiling is necessary to reflect the level of difficulty and the results must be used when entering performance-based contracts. However, Korea has no reliable profiling that can be reflected in the performance-based contracts. The Hope Ribbon Project recognized this weakness and attempted to reflect the level of difficulty in the performance-based contracts indirectly using the target accelerator model. For the Employment Success Package Project, while there is additional incentive for getting a job whose wage level is high, it does not reflect the level of difficulty of finding a job in the performance-based contracts. Therefore, it is highly probable that parking may occur. Similar to the Hope Ribbon Project, it is necessary to consider introducing the target accelerator model but it must be continuously monitored for the occurrence of parking.

Important roles of the government agencies managing the contracted-out projects include monitoring of the occurrence and frequency of strategic actions above and changing the way projects are managed and structures of the contracts. This means they should not perform contract management and project management as a mere administrative function. The staff and organizations having expertise should manage the projects entrusted to private entities and continue to promote necessary changes in project management and structures of the contracts.

C. Reinforcement of Room for Service Innovation

The employment support service is a representative social service that can be transformed into a new business by the private service providers because of the measurability of performance and possibility of innovation in the way services are provided. In other words, suggesting a result-based and performance-based contract structure while giving room for service innovation to the private service providers creates an opportunity for development of a new business area. In practice, the institutions offering employment support services have grown

into global profit-making enterprises in the USA and Australia.

In Korea, mixed signals exist. The Hope Ribbon Project promoted by the Ministry of Health and Welfare intended to transform employment support services into a business that encouraged participation by profit-making enterprises using the blackbox approach to project management. The Ministry of Health and Welfare chose the blackbox approach partly because there was no organization, like employment security centers, directly reporting to the Ministry. The Ministry suggested the minimum standards for the contents of the services and left the details to private institutions allowing them to develop their own manual and operate the projects. On the other hand, the Employment Success Package Project provides very specific instructions for the schedules and contents of the services. According to an interview with an employee of an institution that simultaneously carried out both projects, from the provider's perspective, the Hope Ribbon Project provided relatively more room for innovation. In the Employment Success Package Project, there was little room for the institutions to use their expertise and the priority was on the provision of services following the given instructions, according to the person interviewed. To ensure the quality of services, when the private market is still immature, it is necessary to give specific standards and instructions to the market in certain aspects. However, in the medium- and long-term, private institutions delivering services need to be encouraged to achieve innovation in the contents of services by themselves and compete to grow into a competitive service provider.

To facilitate flexible applications of the current instructions for the Employment Success Package Project, the project management system should be improved so that instructions can be used as a guideline only and service providers may be given incentives based on business results. When a project is carried out with a focus on compliance with instructions specifying the schedules and contents of services, although the service providers are private institutions, the actual contents of services may be the same as those provided by public organizations. As a result, there is a risk of not taking advantage of the autonomy and expertise of the private sector in achieving service innovation. In the current design of the Employment Success Package, the context in most parts remained unchanged when employment security centers began entrusting services to private entities since budget constraints limited the

accommodation of all participants' correspondence. While a performance-based bonus has been introduced in connection with the accomplishment of employment support services, the contents and schedules of services are prescribed in the detailed instructions. Rather than applying regulation-based business style to the private sector, it is necessary to take the blackbox approach more decisively.

VII

Summary and policy implications

1 Summary

The provision of social services by the government is one of the main characteristics of a welfare state. This study aims to examine the functions of and issues related to pricing policies and suggest policy implications for the provision of social services by a state beginning to provide universal welfare. Traditionally, the provision of public goods has been the government's responsibility. However, social services do not have the characteristics of public goods, non-rivalry and non-excludability. The provision of social services is based on the consensus that the government should provide protection systems and services against social risks. If the definition of social risk is interpreted more extensively and the government's role of protection is expanded to care services for the individuals, it will lead to a welfare state system.

A welfare state where the government takes responsibility for social services has many policy tasks. Since an inefficient government is providing inefficient social services, there is a risk of extensive inefficiency and little financial sustainability. Recently, there has been an opinion that the establishment of a sustainable welfare state system should be considered as a process of revolution that forms a new type of state. In particular, an effort has been made in the hope that a sustainable welfare state system can be built with the advancement of new technologies and innovation in the government's management principles. Based on the awareness of the problems, this study analyzes the characteristics of and issues related to social services and present implications on how pricing

policies should be designed to tackle these issues.

The characteristics of social services can be examined in terms of the relative importance of accessibility and right to select, whether it is possible to achieve service quality, the private sector's ability to supply, the user's ability to select, the differences in the intensity of demand for the service, etc.

This study compared child-care, long-term care, vocational skills development, and employment support services with the results summarized in the following. Child-care and long-term care services have become a social service with more emphasis on universal accessibility and the reason was social consensus rather than the characteristics of the service itself. Accessibility to employment support services has been reinforced, especially for the disadvantaged group, by combining its employment and welfare aspects. There has been an overall strengthening of accessibility since the government began taking responsibility for social services. As universal accessibility is enhanced, financial sustainability has become an important policy issue and service prices have been more often determined by cost-based regulations. However, a careful and discrete approach is required when deciding how to investigate costs and determining the allowed markup. Since efficiency may not be the same among service providers and costs may vary depending on the area, they need to develop and agree on clear standards for the calculation of expenses.

For long-term care services, they examine business situations annually by investigating the financial status of long-term care facilities and determine the rate of increase based on the results. In practice, long-term care facilities are not managing their financial information properly despite the regulations about financial accounting. Regardless, the government is insisting on a complete survey, which causes issues. It is suggested that the government may consider selecting representative facilities as a benchmark and conduct cost survey and investigation on their business operation. To help long-term care facilities improve efficiency, the government must consider conducting in-depth cost surveys and business analyses of selected facilities in the respective area. As universal accessibility becomes an important policy objective, financial sustainability is likely to create conflict where financing issues arise and stronger price controls are applied. To ensure financial sustainability, quality improvement, and service innovation, selective accessibility is recommended as a policy objective rather

than pursuing universal accessibility. If universal accessibility is the policy objective because of social consensus, rather than imposing unified regulations, it is desirable to select and monitor facilities for benchmarking and determine prices based on the efficiency of the selected service providers. For the service areas where universal accessibility is highlighted, price control will become worse and issues will arise over service quality. Child-care and long-term care discussed in this study can be considered the representative cases.

For the measurability of service quality, the level of difficulty is high in child-care and long-term care services. It is relatively low in vocational skills development and employment support projects. For services whose level of difficulty in measuring service quality is low, it is more likely that the government would entrust them to private entities based on explicit performance-based contracts. Vocational skills development training and employment support services fall under this category. On the other hand, for child-care and long-term care services it is difficult to perform project management based on a specific accomplishment. For these two services, an effort is being made to ensure quality using the accreditation and evaluation system. However, there is a limit in accreditation and evaluation since they are carried out based on information about the input and process, and evaluation of the appropriateness of the two factors is difficult. For children and long-term care patients, it is difficult to produce information on how the conditions of behavior development or health have been improved as a result of using the service, and in fact, such data is not being produced. Thus, giving incentives using pricing policies is not easy. However, with the advancement of information technology, a new solution may be developed for more effective monitoring on the appropriateness of services in child-care and long-term care services. This will enable the government to perform database monitoring for major input elements and processes as well as conduct measurement and monitoring for the development and health conditions of actual beneficiaries based on the data. Data-based management is used in education, medical, and national defense, and now it is necessary to make investments in the development and expansion of data-based management in social services. Once it is developed, it will be easy to offer incentives using pricing policies and give room for innovation.

Next, the private sector's ability to supply services should be examined. For

each of the four social services, a rapid expansion of private service providers was observed in a short period due to the increase in expenditures resulting from the government's effort to promote universal service. During this process, side effects occurred including deterioration in quality of service and many small-sized businesses rushing into the market. This issue was evident in long-term care facilities and similar problems were observed in private child-care facilities. However, for child-care services, potential demand for services of high quality exists. Since providing high-quality services is not easy at the price level set by the government, excess demand exists for the national and public child-care services receiving a certain form of government support. While the government performs accreditation for the institutions providing services, the level of satisfaction regarding the quality of the service is not high. If the government aims to provide universal service and increase the expenditure, the number of service providers may increase in response, but this does not automatically mean high-quality service will be ensured. Provision of quality service may only be expanded when the accreditation system based on certain conditions set by the government and appropriate price structures are combined. Social services in the four areas have not yet addressed the issue of expansion of quality service.

If we look at the users' ability to select services, the ability is very limited in child-care and long-term care services due to the characteristics of beneficiaries. There are many cases where parents or supporters make decisions on behalf of the beneficiaries who are not able to express their opinion. In addition, although there are many suppliers in the market, the selection pool is limited in practice because accessibility is essential. On the other hand, for vocational skills development training and employment support services, where the right to select is relatively more important than accessibility, many suppliers exist in the market and beneficiaries are able to have their own opinion on the quality of the services and exercise their right to select. However, since the market will be formed based on the price level set by the government, the consumers' right to select is limited unless the difference in demand can be indicated by increasing the beneficiary's contributions for high-quality services. In other words, unless consumers are in higher-income groups who can consume private services outside the government's regulations, they are restricted by the level of quality available due to the pricing policies of the government.

Lastly, the level of difference in the intensity of demand shall be explored. For child-care and long-term care services, there is a large difference in the intensity of demand. While universal demand exists, there is also strong demand for differentiated service types or quality of service. On the contrary, vocational skills development training or employment support services show a high level of selective characteristics but less differentiation in demand. The reason is that the dependency on the vocational skills development training or employment support services provided by the government is not high because, in Korea, people still prefer to find a job using the individuals' information or networks. Despite these circumstances, paradoxically speaking, the room for users to express the difference in the intensity of demand is even smaller in child-care and long-term care services. For vocational skills development training, consumers can choose private institutions that provide quality service by increasing their contributions. For child-care and long-term care services, unless consumers are completely outside the market system that is under the influence of the government's financial support, their right to select is limited. For child-care service, the government is regulating the contents of the services. For long-term care services, the regulations apply to the contents and types of services. If users intend to consume these services based on the government's financial support, the room for expressing different preference on the contents of services will be reduced. The government is imposing regulations so that users are not allowed to unlimitedly consume differentiated services by increasing their contributions. This is unavoidable to maintain universal accessibility. Here, the intention of the policy works to prevent service providers from producing additional services that are not essential while taking for granted the government's financial support.

Policy Implications

Based on the case analysis above, implications related to the pricing policies of social services entrusted to private entities can be concluded as follows. First, it is desirable to introduce social services entrusted to private entities as much

selectively and gradually as possible. The reason is that it is almost impossible to reduce the scope of business and level of benefits once comprehensive social services are provided. Child-care service is the typical example. In the process of moving from universal free child-care services to customized child-care services, due to the resistance of providers and beneficiaries, it has become difficult to achieve the initial objectives such as saving expenditures or providing selective services. One of the paradoxes of a welfare state is that the dissatisfaction of people also increases as the government expands social services. Therefore, in the process of expanding social services, it is important to manage the level of people's expectation and provide selective yet effective high-quality services. If the scope of benefits expands without ensuring service quality due to a limited budget, public dissatisfaction would grow and result in considerable burden to the government.

The scope, quality level, financing plan, and size of the budget affect the pricing policies of social services entrusted to private entities. In particular, when deciding the size of the government's financial support, it is necessary to make explicit decisions on the scope and level of services it intends to provide for the citizens as well as on the financial conditions. Once the size of the budget and scope of benefits are determined, the prices (fees) applied to the payment to service providers or beneficiaries will be determined accordingly. Ideally, it is necessary to set a target quality level that would be satisfactory to the people, decide the price level, estimate the required budget and set the target beneficiaries or the scope of contents of services. It should be noted that providing services without ensuring their quality is very likely to cause negative side effects.

Second, when establishing pricing policies of social services whose universal accessibility is essential, it is important to develop financing plans to tackle the financial sustainability issue and have a consensus on the principles of setting the price levels. To ensure universal accessibility, the requirement of public finance must be considerable. If the government provides universal services without securing adequate funds, the price level would fall and fail to create market conditions that enable providers to offer quality services. In extreme cases, providers of quality service may be removed from the market because, at the given price level, they do not have any option but to increase efficiency or lower the quality of services to survive. Therefore, it is necessary to present

several scenarios of financing plans in relation to the level of service and produce a consensus before promoting the resultant policies. There have been only few specific discussions so far concerning the connection between the price level and level of service and financing plans. Under these circumstances, the government made the declaratory objective “provision of universal service” a priority and has promoted the relevant policies. As a result, there have been debates about the low price levels and quality of service.

Third, it is necessary to strengthen the government's capacity for contract management and project management. In response to the changes in the policy objectives and the environment, changes in the way contracts and projects are managed should be made continuously. The government should be equipped with expertise to perform “management” beyond administrative functions. Establishing pricing policies is one of important elements of management functions. Because of the gap between the decision-making organization and actual project management organization, as well as the poor management of organizations for the management functions to operate, the focus is on the tasks responding to the current issues, rather than on an active approach. It is critical to have a central organization clearly assigned for the role and enable the organization to actively manage contracts and projects as well as pricing policies for each of the social services while strengthening its capacity. For long-term care services, they annually investigate the financial status of facilities and conduct cost analysis before making decisions to adjust the amount of fees at the relevant committee. For child-care services, they regularly calculate and provide standard child-care expenses and the Ministry of Health and Welfare develops a plan based on the calculation before following the decision-making process for general accounts. The current decision-making system intends to maintain the status and reflect the inflation rate. There is a tendency that the structure at the time of the introduction of a system remains unchanged despite the changes in the environment and policy objectives. In particular, it is necessary to develop a plan for responding to the strategic actions of consumers and suppliers while monitoring the market conditions as well as having a specialized and independent central organization capable of promoting changes such as innovation in contract structures and project management in response to advancements in technology.

Fourth, when the early stage of the social service market is over, to facilitate innovation and growth of social services, the government needs to pursue result-based performance management. At the early stage of the provision of social services entrusted to private entities, specific instructions or regulations may be needed to help the private sector develop their capacity. However, after a certain period, conversion into a system that allows room for service innovation is required. With the introduction of result-based incentive systems including result-based and performance-based contracts, it is important to give room for private institutions to autonomously achieve innovation in the contents of services and the way they are provided. In this process, the monitoring function should be carried out by the government to achieve cost saving and quality improvement simultaneously. The biggest threat against the sustainability of a welfare state appears when the traditional inefficiency in the social service areas featuring personal services is combined with the rigidity and inefficiency in government operations. If the government continues to exercise regulation-based, conservative project management even after the provision of social services is entrusted to private entities, it is impossible to achieve innovation in social services using new technology and the project management approach. At the early stage when the private market that provides social services is not fully matured, specific guidelines and regulations by the government may be required. However, after a certain period, the system needs to be changed into a result-based management system with the blackbox approach adopted so that the autonomy of private service providers can be exercised.

Under the current social service system in Korea, detailed regulations are being applied to the procedures and contents of services. Important lessons from the Hope Ribbon Project previously promoted as an employment support service include the recommended use of the blackbox approach since it effectively motivates the private institutions and enables them to achieve service innovation. To avoid overlapping, the Hope Ribbon Project was transferred to the Ministry of Employment and Labor and the previous approach could not be maintained. However, it can be viewed as a representative case that gave the largest opportunity for service innovation among the many cases of social services entrusted to private entities in Korea.