Introduction to Korean SME
Supporting Policies and Programs

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Joon-Ho LEE
(johlee@kosbi.re.kr)
1. From the Ruins

- Japanese colonization of Korea (1910~1945)

- Korean War (1950 ~ 1953)
  - Armistice (1953) split the Korean peninsula into two along the DMZ
  - More than 50% of the infrastructures were destroyed
  - Per capita Income was 67$ in 1950

Where am I?
2. To the Present

- Industrial policy was centered on heavy and chemical industries
- Export promoted by large enterprises
- Promoting SMEs to support Large Enterprise within their supply chain

**Technology Development**

- Market Opening / Introduction of Foreign Capital
- Investment induction
- 70~80’s
- 90’s
- 2000’s
- Knowledge based Innovation
- Future

**Factor Investment**

- Supported by cheap labor

- **50~60’s**
- **70~80’s**
- **90’s**
- **2000’s**

- **GDP**: $1.3 billion (1953) → $1.5 trillion (2013)
- **Per Capita Income**: $82 (1961) → $26,000 (2013)
- **Export**: $22 million (1957) → $559 billion (2013)
3. Identifying Growth Factors

- **Legacy of Japanese colonization: some positive impacts?**
  - Introduction of modern education system/social infrastructure (bank, media, etc.,)/SOC/agricultural · managerial · engineering technologies, etc.,

- **Confucianism and education: knowledge sharing**
  - Literacy rate: from 20% in 1945 to 97% in 2010
    - Compulsory Primary Schooling (1~6 years) (1950)
    - % of Student entering University: 81.9% (Japan 45%, U.S. 63%)

- **Social Cohesion**
  - Spirit of Unity? - We can do it!

- **Anti Corruption**
  - At least in the early stage of economic development

- **Selection and Concentration**
  - Concentrated preferential government support
  - Development first, then democracy will follow (president Jung-Hee PARK)
4. Overview of SME Policy Change

Change of SME Policy Paradigm in the Process of Economic Development

1950s National Economy Formative Period

1960s Initiation of SME Policy
- Cottage Industry (Handicraft)
- Export (mineral, wig, etc)
- Enacted “Framework Act on SME” (1966)

1970s Strengthening Inter-firm relationship
- Promote SMEs to support Large Enterprise’s exports
- Enacted “Promotion of Alliance b/w SMEs Act” (1975)

1980s Protection and Nurturing
- Promotion of “Purchase of SME Product”, “Fair Trade b/w LE and SMEs”, etc,
- % of LE supplying SMEs 42% (1985)

Late 1990s Restructuring of System
- Economic bubble
- Asian Financial Crisis (1997)
- Restructuring of LEs – SMEs

2000s Competitiveness of SMEs by competition
Fostering Venture Companies & Startups
5. Definition of Korean SMEs

- In general, SME is defined as an enterprise with less than 300 employees (manufacturing, mining, construction, transportation, etc.)

- 200 employees in business support service, 100 employees in wholesale and product intermediation.

<table>
<thead>
<tr>
<th>Sector</th>
<th>SMEs</th>
<th>Small Business</th>
<th>Micro-enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Workers</td>
<td>Capital &amp; Sales</td>
<td>No. of Workers</td>
<td>No. of Workers</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Less than 300</td>
<td>Capital worth $8M or less</td>
<td>Less than 50</td>
</tr>
<tr>
<td>Large general retail stores, computer-related industries, engineering service</td>
<td>Less than 300</td>
<td>Sales worth $30M or less</td>
<td>Less than 10</td>
</tr>
<tr>
<td>Wholesale, R&amp;D for natural science, public performance, news provision</td>
<td>Less than 100</td>
<td>Sales worth $10M or less</td>
<td>Less than 10</td>
</tr>
</tbody>
</table>

Source: Article 2 of Framework Act on SMEs and Article 3 of Enforcement Decree of the Act.
6. Basic Categories of SME Policies

- Major categories of Korean SME supporting policy
  - Human Resource Development
  - Technology Development
  - Financial Support
  - (International and Domestic) Marketing Support

- Current issues of policy interest
  - Start-ups and venture firms
  - Micro-enterprise
  - Firms in between SMEs and large enterprise
  - Globalization
7. Establishment of SME related Organizations

- SME policies with legal systems initiated from the 1960s
  - Enacted ‘SME Cooperative Act’ (1961)
    - Establishment of local labor unions and cooperatives of SMEs are encouraged
    - “(KBIZ)Korea Federation of Small and Medium Businesses” (1962)
  - SBC: Small and Medium Business Corporation (1979)
    - an organization dedicated to support SMEs
      - Financial support for modernization, cooperation, consulting, and training, and technology improvement
  - SME department within the Ministry of Commerce (1968)
  - SMBA: Small and Medium Business Administration (1996)
  - “Presidential Commission on Small and Medium Enterprises” (1998)
8-1. Financial Support

❖ Establishment of Financial Institutions
  ▪ Industrial Bank of Korea for SMEs (1961)
  ▪ Credit Guarantee Fund (1976)
  ▪ Technology Credit Guarantee Fund (1989)
  ▪ SBC and other institutions

❖ Financial Support Systems
  ▪ Bank of Korea: Mandatory Ratio of SME Loans (1965)
  ▪ SME Mutual-Aid Project (1982)
    - Operated by KBIZ
# 8-2. Financial Support: Policy Fund Providing Institutions

<table>
<thead>
<tr>
<th>Financial Institutions</th>
<th>Program</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Korea</td>
<td>Mandatory ratio of loan to SMEs</td>
<td>Commercial banks: over 45% Regional banks: over 60% (중소기업의무대출)</td>
</tr>
<tr>
<td>Korea Finance Corporation (KoFC)</td>
<td>Indirect Loan</td>
<td>Policy fund (50%) + commercial loan (50%) * A &gt;</td>
</tr>
<tr>
<td>Korea Credit Guarantee Fund (KODIT)</td>
<td>Credit guarantee</td>
<td>Generally up to 85% of total loan to SMEs</td>
</tr>
<tr>
<td>Korea Technology Credit Guarantee Fund (KOTEC)</td>
<td>Government loan</td>
<td>Policy fund (direct and indirect) * &lt; B</td>
</tr>
<tr>
<td>Regional Guarantee Association</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Business Corporation (SBC)</td>
<td>Fund of fund</td>
<td>Investment to venture capital</td>
</tr>
<tr>
<td>Korea Venture Investment Corp (K-vic)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Various Ministries</td>
<td>Public financing</td>
<td>Loans, investment, grants, etc.</td>
</tr>
<tr>
<td>Local Government</td>
<td>Policy fund for regional SME development</td>
<td>Regional government budget</td>
</tr>
</tbody>
</table>
8-3. Financial Support: Various Channels of SME Financing

< Direct Investment (직접투자: K-vic) >

Government or public institutions

investment

returns

company

< Direct Loan (직접융자: SBC) >

Government or public institutions

loan

Low interest

company

< Interest Gap Support (이차보전: Regional Guarantee Association & SBC) >

Financial institution

loan

Low interest

company

Interest subsidy

Government
8-3. Financial Support: Various Channels of SME Financing

- **< Indirect Loan (간접대출: kofc) >**
  - Financial institution
  - Interest
  - Lower interest
  - Government

- **< Credit Guarantee (신용보증) >**
  - Government
  - Funding and Monitoring
  - Credit guarantee institution
  - Guarantee application
  - Guarantee acceptance
  - Guarantee contract
  - Company
  - Financial institution
  - Loan application
  - Guaranteed loan

- **On-lending (Korea Finance Corporation)**
- **Default risk is on financial institution**
## 8-4. Financial Support: Coverage of Public Financing

<table>
<thead>
<tr>
<th>Credit rating</th>
<th>Supporting methods</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public financing (SBC)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment grade</strong></td>
<td>AAA~A</td>
</tr>
<tr>
<td></td>
<td>BBB</td>
</tr>
<tr>
<td><strong>Speculative grade</strong></td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>CCC</td>
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<td>C</td>
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<tr>
<td><strong>unqualified</strong></td>
<td>D</td>
</tr>
</tbody>
</table>
8-5. Financial Support: Framework Overview

- The main framework of SMEs’ access to finance is through loan guarantees and policy loans (loans direct from government to SMEs)
9-1. Supporting Export & Domestic Marketing

- **“KOTRA” established in 1962**
  - Korea Trade-Investment Promotion Agency

- **Korea Trade Insurance Corporation (1969)**

- **SME Product Procurement Promotion Act (1981)**
  - Procures SME products based on collective agreements

- **SME-only Business Areas (1982)**
  - Prohibited large companies from entering into designated business areas

- **Small Business Distribution Center (Happy Department Store, 1999)**
  - Annual direct and indirect support of expanding sales channels of 10,000 SMEs
9-2. Supporting Export and Marketing Channels: Gobiz-Korea

<table>
<thead>
<tr>
<th>Main Supporting Programs</th>
<th>Marketing Support</th>
<th>Community</th>
<th>Marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global promotional marketing</td>
<td>Business Matching Service (BMS)</td>
<td>Main page</td>
<td>Product information</td>
</tr>
<tr>
<td>Producing website in foreign language</td>
<td>Visitor Assistance Program (VAP)</td>
<td>Biz news</td>
<td>Regional SME search</td>
</tr>
<tr>
<td>Optimizing search engine</td>
<td>Online global marketing education</td>
<td>Member search</td>
<td>Webpage information</td>
</tr>
<tr>
<td>Global e-trade channels</td>
<td>Online trade counseling</td>
<td></td>
<td>E-Catalog information</td>
</tr>
<tr>
<td>Developing start-up business in export</td>
<td></td>
<td></td>
<td>Discount on domain</td>
</tr>
<tr>
<td>Online meeting</td>
<td></td>
<td></td>
<td>Discount on DHL</td>
</tr>
</tbody>
</table>

Visitor Assistance Program (VAP)

Online global marketing education

Online trade counseling

Discount on domain

Discount on DHL

TODAY’s trade news
9-3. Supporting Export and Marketing Channels: KOTRA

Located worldwide
9 local head offices, 119 Korea Business Centers (KBCs) in 81 countries
10. Technology & Human Resource Development

- **Supporting Technology Development**
  - Machinery, Parts, and Material Localization Plan (1986)
    - Support technology development of SME
  - SME Technology Innovation Promotion Act (2001)
    - Overall support of SME technology innovation

- **Supporting Human Resource Development**
  - Industrial Technology Training System for Foreigners (1993)
    - To relieve labor shortage in the SME sector
  - Special Act on Employee Support for SMEs(2003)
    - Support HR training and education
    - Support employment of labor force
11. Micro and Female Entrepreneurs, Startups, Venture Companies

- **SME Start-up Support Act (1986)**
  - Simplified start-up procedures and financial/tax support

- **Business Incubator Project (1992)**
  - Increased the success of start-ups

- **Special Measures on Venture Business Support (1997)**

- **Women’s Business Center (2003)**
  - Education on start-ups for female entrepreneurs

- **Small Enterprise Development Agency (2005)**
12. SME Supporting Channel in a Glance

- **SMBA (Policy making)**
  - Policy Information
- **KOTRA (Export support)**
- **KITA (Domestic)**
- **Marketing**
- **KKT (Export support)**
- **KENDA (Micro enterprise support)**
- **KODIT Kibo**
  - K-sure (Financial support)
- **KOTRA KITA**
- **SBC (Policy implementing institution)**
- **MSME (Federation of SMEs)**
  - (Federation of SMEs)
- **K-BIZ**
- **KOTRA**
- **KITA**
- **Regulations**
  - Ministries & Local Government Administrations, Customs, etc.
- **Technology**
  - TIPA (R&D support)
- **Marketing**
  - Finance & Tax
  - R&D
  - HRD
13-1. Current Status of Korean SMEs

99.9% of Korean companies are SMEs
- Number of SMEs: approx 3.2 million
  - About 88% are micro-enterprises

88% of employees are in SME sector
- Number of employees (SME): approx 12.6 million
  - About 38% are in micro-enterprises
13-2. Current Status of Korean SMEs

Current Status of Korean SMEs - problems?

- **Small Scale**
  - Korea: 22.8%
  - OECD: 8.4%
  - % of Self-employed

- **Heavy Dependence on Large Enterprise**
  - Korea: 55%
  - Japan: 30%
  - % of Large enterprise supplier

- **Domestic Consumer Oriented**
  - Korea: 22%
  - Japan: 29%
  - 5~49: 9.7%
  - 50~99: 22%
  - 100~300: 29%
  - % of Exporting SMEs

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14. Focus of Current SME Policy

From “Protection” to “Promotion”
From ‘Overall’ to ‘Selection & Concentration’

Protecting SMEs
- Preferential loans
- Protect business area
- Government procurement

Support Overall sector

Promoting SMEs
Selective Financial Policy
Introduced the concept of competition

Support by Selection
15. Lessons from Korea’s Experience?

- Common features of Korea, Israel, Taiwan and Ireland
  - Small economy with scarce resource
  - Education and knowledge dispersion
  - Outward internationalization

- Government-led development, is it effective?
  - Aggressive governmental support and protection – Yes?
  - May be justifiable at an infant development stage
  - But in the long-run, any side effects?

- There is no free lunch!
  - Moral Hazard, Peter Pan Syndrome, Inequality, Corruption etc.,

- Each economy has their own characteristics and their own development plan
  - Learn from failure?

- What are the current issues?
  - Globalization
  - Identifying competitive edge of local SMEs in the GVC
Thank You!

감사합니다!