



**APEC SME Innovation Seminar**  
(Effective Implementation and Assessment of SME Innovation Policy, SME01/2009A)

**SME Working Group**  
August 25 - 28, 2009, Seoul, Korea



Asia-Pacific  
Economic Cooperation

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Small & medium  
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# SESSION I

Keynote Presentations



# SMEs Survival Strategy at the Time of Crisis

Prof. Heon Deok Yoon  
Soongsil University

- With the international economic outlook looking grim, nations around the world are seeking to revitalize the economy through creating jobs and developing new growth engines.
- Businesses moved aggressively to raise cash and reduce costs, slashing or postponing all manner of operating expenses, R&D, and capital-spending plans.



- The economy plunged into a serious recession.
- The government policy response to the crisis has been breathtaking in its scale; *doing too much rather than too little.*

But the real question is  
what's next?

# Innovation and Entrepreneurship

- The way out of the doom and gloom of '70s and the end of '90 in Korea was a wave of technology innovation that spurred a generation of company formation, job creation, productivity gains, wealth accumulation, and GDP growth.
- Today's opportunities are just as big if not bigger.

- Many recent innovations in technology have a transforming impact on the environment for SMEs and entrepreneurship.
- Technological innovations would continue to have a major impact in the next decade and beyond.

- The impact of technological innovation on SMEs has revolved around increased capabilities;
  - cost of the new capabilities
  - effect on productivity
  - impact on economies of scale
  - cost of access to the new technologies
  - impact on the way firms can operate

- The transcendent technological innovation over the last decade has made a major impact on what SMEs can do, how they do it, and the efficiency with which they do it, and it has allowed many small firms to compete more effectively with larger businesses.

- Technological innovation generally improves the flexibility, the capability, and the opportunity of SMEs to form, serve, and compete in new and existing markets.
- Technological innovation would be a major positive influence over the next decade and beyond and would improve the viability and competitiveness of SMEs.



## Importance of Innovation

- Most competitive business environment
- Amount of innovation is breathtaking
- Diversity of business opportunities
- Innovate ahead, not only to prosper but to survive
- Vital challenge is to create an environment that nourishes innovation

## New Paradigm for Competition

- Fundamental changes in the structure of industry, and new industries emerge
- Need for an adjustment of concepts for action, so that industrial production and innovation processes may be organized efficiently.

● To defend or develop market positions, SMEs must prepare themselves in particular for the following;

- 1) Capacity for product innovation and product differentiation
- 2) Capacity for process innovation

3) Conscious structuring of the division of labor and the quality of the industrial environment

4) Necessary radical reorganization of all flows of goods and services

5) Ability to act strategically on the basis of information

- The application of all parameters of competition under growing pressure of time
- None of the parameters of competition singled out is new.

- Schumpeter pointed out,  
*“What distinguishes dynamic enterprises from the rest is not only constant product and process innovations, but equally their efforts to improve traditional concepts of production and organization.”*

- Growing inadequacy of one-dimensional competition strategies
- Greater need in the future for the combined or coordinated use of numerous parameters of competition, with the time factor regarded as a critical dimension

## Productive Innovation for Competition

- According to Peter Drucker, the innovation arises from discipline more than imagination.
- What distinguishes the outstanding competitors from the rest comes from two basic principles;
  - Consistent innovation
  - Create value for their customers and potential customers.



## 1. Begin with the Right Mind-Set

- To sharpen an organization's receptivity to change, several ingredients are essential.
- First and foremost, top management must be deeply and personally involved in the process.
- Innovative companies are led by innovative leaders. Innovative leaders aren't necessarily creative, idea-driven people.
- But they welcome change because they're convinced that their competitive survival depends on innovation.

## 2. Restructuring the Organization

- The structures, processes, and people can cut off the generation of good ideas and can block their movement through the business system.
- Excessive layering kills ideas before senior managers ever consider them quickly.
- Need to get around organizational roadblocks like these

- Most successful innovations require four key inputs, according to Pearson :
  - *Champion* who believes that the new idea is really critical and who will keep pushing ahead.
  - *Sponsor* who is high up enough in the organization to marshal its resources
  - *Mix* of bright, creative minds and experienced operators
  - *Process* that moves ideas through the system

### 3. Focused Approach

- Once the entire organization is committed to stepping up the pace of innovation, we have to decide where to direct our efforts.
- Successful innovators usually have a pretty clear idea of the kind of competitive edge they're seeking.

## 4. Finding Good and Concrete Ideas

- Good ideas most often flow from the process of taking a hard look at customers, competitors, and business all at once.
- In looking for ways to innovate, we should consider the following:
  - What's already working in the marketplace that we can improve on as well as expand
  - How we can segment markets differently and gain a competitive advantage in the process
  - How our business system compare with competitors'

## Managing Innovation

- Innovation requires careful, dedicated, and enthusiastic attention to detail, by all kinds of people in the organization.
- To be innovative requires the freedom to act
- People who lead innovative organizations encourage processes that inspire people and foster teamwork.

## Creating Culture for Innovation

To support innovation, the culture must encourage, *fast approvals, open communication, cooperation* instead of combat across internal units, *tolerance for uncertainty, and faith in people to try new things.*

- Innovation is hard to predict, may occur anywhere, and *require multiple experiments.*
- Organizations should encourage *innovation all the time, everywhere.*
- Strategy for innovation involves activity at three levels; at the base, in the middle, at the peak



- A culture for change does not mean doing everything *perfectly*; it means doing everything quickly, learning from it, then doing it *differently*.
- *Culture creates the stable environment in which innovation can flourish. But there are two aspects to culture: creating it, and sustaining it*

## Innovative Leadership

- Technological innovation gradually diffusing outward and downward
- The massive increase in *individual empowerment* made possible over the last decade, first by telecommunications and then by computing,
- As people demand *greater customization* of product, their relationship with their suppliers becomes more one-to-one than ever before.
- Corporations are already preparing to establish thousands of *individual relationships with their customers*

- It becomes imperative to enfranchise corporate individuals
- Corporations that do not respond to the new obligation to release power outward will find themselves rejected in the marketplace.
- The demand for simultaneity and flexibility in the new dynamic business environment

- In this new world of personal empowerment, the visionary leader acting as mentors rather than commanders.
- The successful company must innovate ahead, not only to prosper but to survive.
- That is why today's vital challenge for companies and leaders is to create an environment that nourishes innovation.



# Korea Policy Support for SME Financing

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(Former President of The Korean Association of Small  
Business Studies, member of FKI's Financial institution  
improvement committee, member of monetary studies in BOK,  
member of SMBC's Management Advise Committee )

\*This paper is prepared for **APEC SME Innovation Seminar** held in Seoul,  
**August 2009** .

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## Terminology

- Korea Small and Medium Business Corporation(SMBC)
- KODIT(Korea Credit Guarantee Fund)
- KIBO (Kibo Technology Fund- Korea Technology Guarantee Fund)
- Korea Regional Credit Guarantee Foundation  
(example: Seoul Credit Guarantee Foundation; Kyunggi Credit Guarantee Foundation)
- ( Korea Federation of Credit Guarantee Foundations is the credit re-guarantee organization of 16 regional credit guarantee foundations)
- small commercial and industrial trader
- small firms

## 1. Introduction

- ◆ Business growth is the key factor in increasing per capita GDP.
- ◆ It is well known that every business starts with a few employee. Hence small firms act as a base for the growth of big firms and national economy
- ◆ Every country has tried to push the entrepreneurship to establish start-ups and venture firms.
- ◆ However, risky nature of the venture firms makes it difficult for start-up entrepreneurs to obtain necessary funding through the market
- ◆ If a policy is to improve the financial stance of SME, it should correct market failure and expand the market frontier.

- ◆ SME of both developing and developed countries have obstacles for SMEs' financing. The obstacles depend on the degree of development in both financial market and economy, the industrial structure, culture, politics, etc.
- ◆ Hence every country has to establish their unique financial support for SMEs to complement her financial market failure. As part of the support, the institution has provided screening, consulting and minimal financing to make successful entrepreneur .
- ◆ The ultimate goal of policy is to expand the potential economic growth by making successful business.
- ◆ This lecture introduces Korea's SME policy mechanisms for and why it is necessary for the economic growth and entrepreneurship.

## 2. Share of SMEs in Korean Economy

### (1) SMEs ' Classification in Korea

– Three types of SMEs are classified only by the number of regular employee .

Korea				Japan		
Types of SMEs	Small commercial and industrial Firm	Small firm	Medium firm	Types of SMEs	Small and Medium firm	Small firm
minjng	less than 10 employee	less than 50 employee	50 to 299 employee	Manufacturing and other industries	Employee less than 300 or capital less than 300million yen	less than 20 employee
manufacturing						
transport						
construction				Wholesale	Employee less than 100 or capital less than 100million yen	
Utilities (electricity, Gas, Water)	less than 5 employee	less than 10 employee	10 to 199 employee	Retail	Employee less than 50 or Capital less than 50million yen	less than 5 employee
retail, wholesale, other service			10 to 299 employee	Service	Employee less than 100 or capital less than 50 million yen	

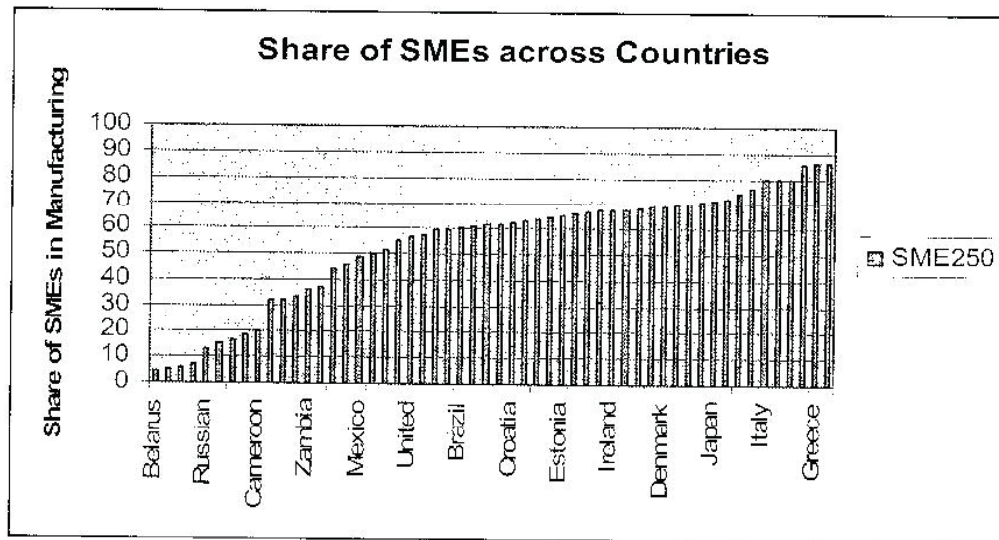
### Korean SMEs' Criteria before 2008 year

Category	Less than 300 employee  Or 8 billion won capital	Less than 300 employee  Or 3 billion won capital	Less than 300 employee  Or 30 billion won sale	Less than 200 employee  Or 20 billion won sale	Less than 100 employee  Or 10 billion won sale	Less than 50 employee  Or 5 billion won sale	
industry	Manufacturing	Mining, Construction   Three types in Transport	8 types of industries including Big total retail, Hotel, Communication, Media, Information process, etc.	12 types of industries including electricity, gas, water, on-line sale, etc.	7 types of wholesale, natural science R&D, performing art, news supply, etc.	the others	6 categories

### (2) SMEs 's Share in Selected Countries

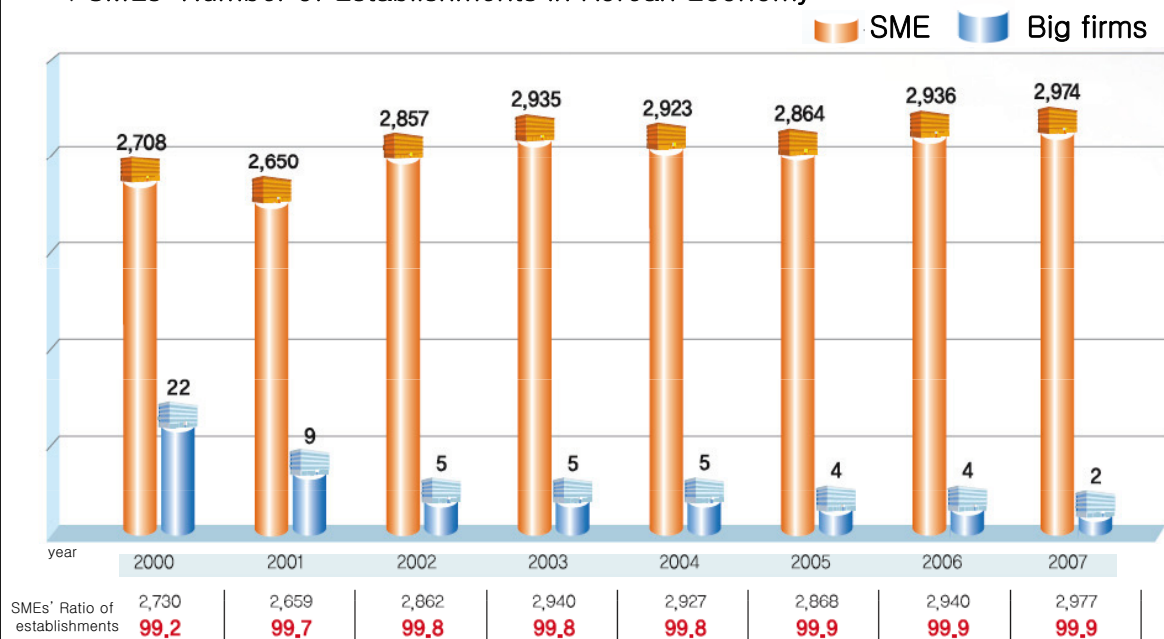
Cou ntry	USA (2004)	Japan (2004)	EU (2004)	Taiwan (2006)	Korea (2006)
Ratio Of SMEs' Establishments	99.7%	99.2%	99.8%	97.7%	99.9%
Ratio of SMEs' employee	50.9%	79.4%	69.7%	76.6%	88%
Number of big firms	17,000	45,600	40,000	28,400	4,266

## Share of SMEs across Nations

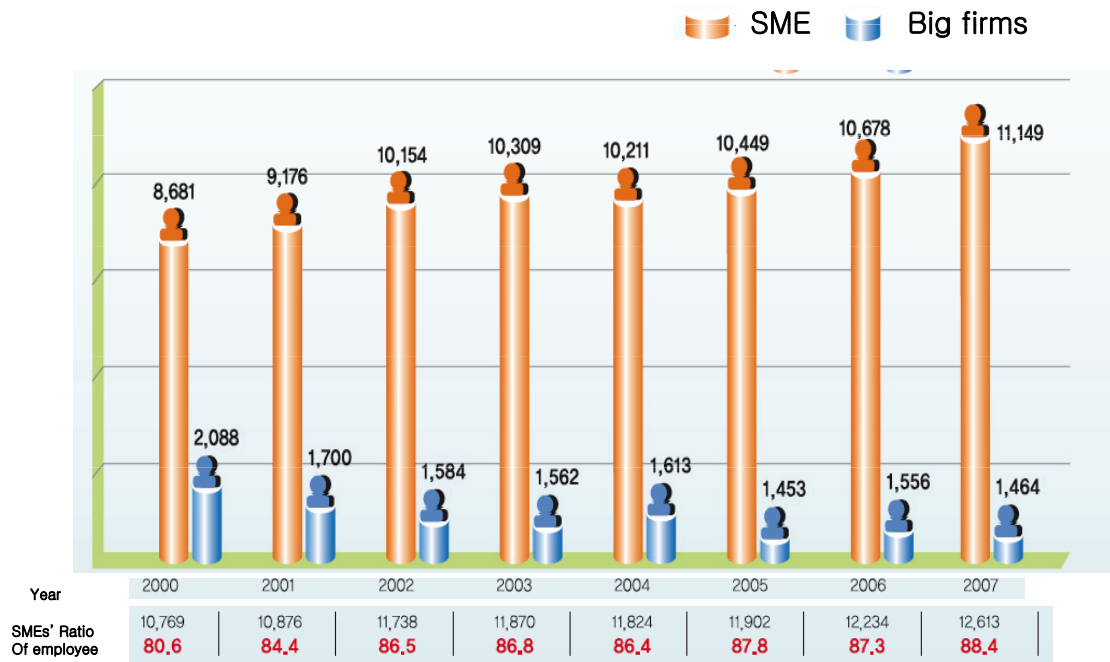


### (3) SMEs' position in Korean total industry

#### ◆ SMEs' Number of Establishments in Korean Economy



#### ◆ SMEs' Employee in Korean Economy



#### (4) Korean SMEs' Size distribution and longevity

- There are large number of establishments with less than 5 employee.
- Establishments with less than 50 employee occupy above 90% in every industry.

### The Number of establishments by the Number of Employee

Classification	Less than 5	Less than 10 employee	Less than 50	50~99	100 ~199	200~299	More than 300	Total
Total	2,583	2847.2	2999.9	13.2	5.8	1.6	1515	3022
	85.5	94.2	99.3	0.4	0.2	0.1	0.0	
manufacturing	215.7	277.3	330	5.5	2.3	0.6	653	339.1
	63.6	81.8	97.4	1.6	0.7	0.2	0.2	11.22
Construction	50.9	71	87.8	1.3	0.5	0.2	90	860.3
	5.9	79.1	97.7	1.4	0.6	0.2	0.2	28.47
transport	325.2	332.3	338.7	1.2	0.85	0.17	73	341
	95.4	97.5	99.4	0.3	0.2	0.1	0.0	11.28
Wholesale and retail trade	777.7	833.2	858.1	1.3	0.6	0.2	90	860.3
	90.4	96.9	99.7	0.2	0.1	0.0	0.0	28.47
Lodging and food services	559.7	606.3	616.88	0.4	0.09	0.03	33	617.6
	90.6	98.2	99.9	0.1	0.0	0.0	0.0	20.44
Finance and insurance	5.91	6.96	8.67	0.24	0.08	0.03	58	9.07
	64.9	76.8	95.7	2.6	0.8	0.3	0.6	0.3
Real estate and rent	95.0	100.5	103.8	0.2	0.06	0.02	11	104.2
	91.2	96.4	99.6	0.2	0.1	0.0	0.0	3.448
Business service	50.9	70.1	82.9	1.8	0.9	0.3	402	86.3
	59.0	81.2	96.1	2.1	1.0	0.4	0.5	2.856
Education service	85.5	100.8	108.6	0.3	0.06	0.01	3	109.1
	78.4	92.4	99.6	0.3	0.1	0.0	0.0	3.61
Amusements, performing arts, and sports	114.0	117.9	119.63	0.23	0.14	0.03	12	120
	95.0	98.3	99.8	0.2	0.1	0.0	0.0	3.971
Others, public repairs, personal service	255.1	266	272.49	0.3	0.08	0.01	5	273
	93.4	97.5	99.9	0.1	0.0	0.0	0.0	9.033

(note) the unit of employee is 1000 person.

Classification (2006년)	Firm size	Total	Less than 5 year (%)	5 to less than 10 year	10 - less than 15 year	15 - less than 20 year	20- less than 25 year	25- less than 30 year	30 or more year	Average Longevity (year)
Total	SME	3,017,787	47.4	27.7	12.0	6.3	3.3	1.8	1.5	7.2
	Big firm	4,266	27.4	26.0	12.9	10.2	6.3	4.1	13.1	13.5
Manufacturing	SME	338,496	32.5	31.9	16.5	9.5	4.6	2.4	2.6	9.4
	Big firm	653	8.1	16.5	9.6	11.3	12.1	7.2	35.1	23.7
construction	SME	89,697	41.1	33.2	14.6	7.0	2.2	1.1	0.9	7.5
	Big firm	150	5.3	14.7	18.7	21.3	8.7	10.0	21.3	20.6
Transport	SME	340,950	36.9	33.0	13.0	8.8	4.7	2.8	0.9	8.4
	Big firm	88	8.0	13.6	8.0	10.2	3.4	8.0	48.9	26
Wholesale and retail	SME	859,667	42.8	27.4	13.3	7.5	4.3	2.4	2.4	8.2
	Big firm	603	27.4	27.7	13.6	10.6	5.1	4.3	11.3	12.9
Lodging and food service	SME	617,210	62.0	24.0	8.4	3.0	1.4	0.7	0.5	5
	Big firm	356	51.4	26.4	7.3	3.9	4.5	2.8	3.7	7.3
Finance and insurance	SME	8,678	54.1	25.2	8.7	5.0	3.5	1.7	1.9	6.8
	Big firm	397	32.5	26.4	11.3	6.8	3.3	2.3	17.4	13.9
Real estate and rent	SME	103,863	65.0	20.2	6.1	4.1	2.7	1.1	0.9	5.3
	Big firm	288	42.7	21.5	13.9	10.1	4.2	1.7	5.9	9.3
Business service	SME	85,602	46.2	30.8	12.2	5.1	2.6	1.6	1.6	7.1
	Big firm	689	23.7	30.2	16.8	13.8	6.4	3.2	6.0	11.7
Education service	SME	108,704	61.1	24.4	9.1	3.3	1.3	0.5	0.3	5.1
	Big firm	372	32.3	38.4	15.6	6.7	3.8	1.9	1.3	8.2
Amusement, performing art, sports	SME	119,796	67.2	23.6	6.3	1.7	0.6	0.3	0.2	4.3
	Big firm	219	28.8	24.7	11.4	16.4	7.8	5.0	5.9	11.7

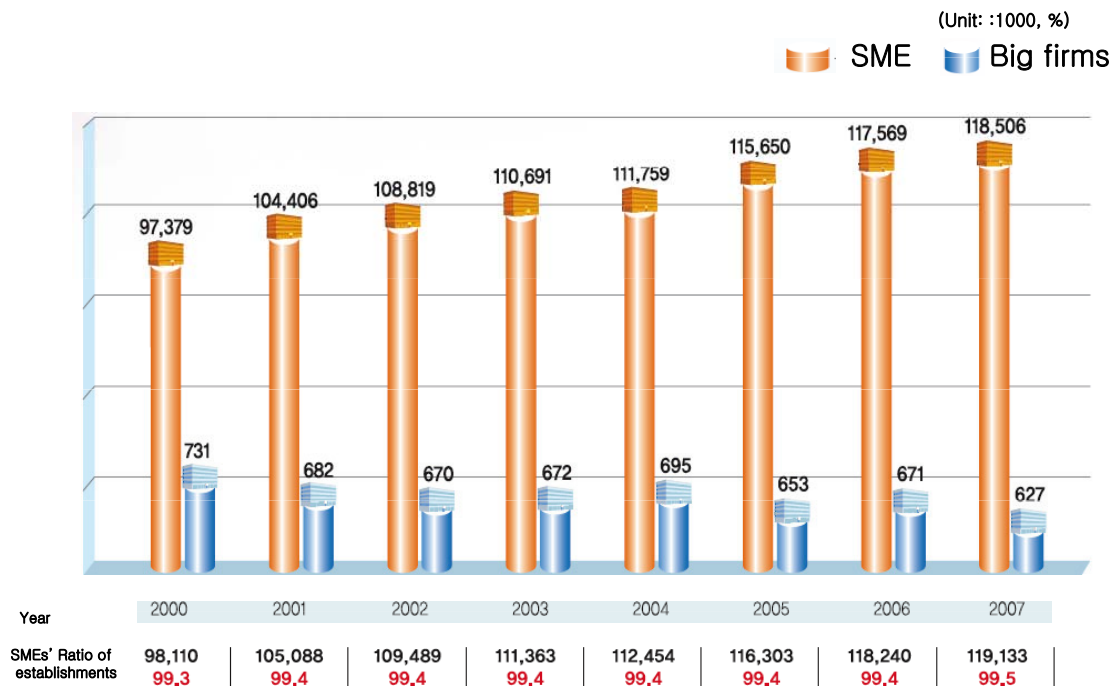


## (5) SMEs' position in Korean Manufacturing industry

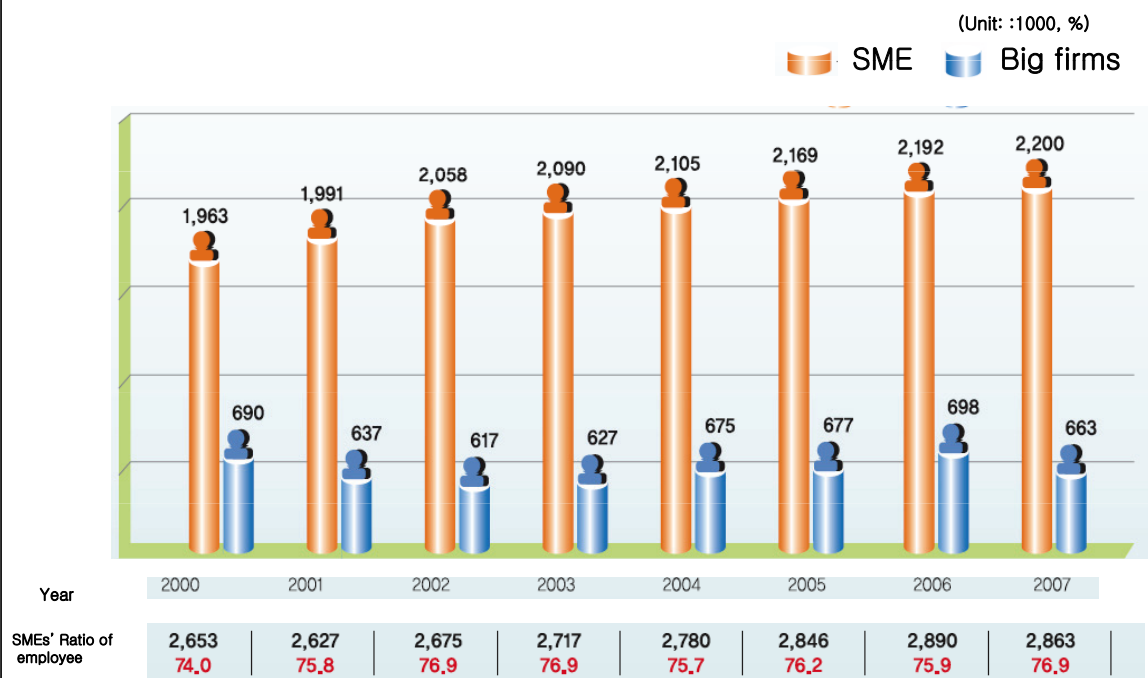
The SMEs' share in the Korea's manufacturing sector (5 employee or more)

=> The job creation capacity per establishment is the highest in the manufacturing sector.

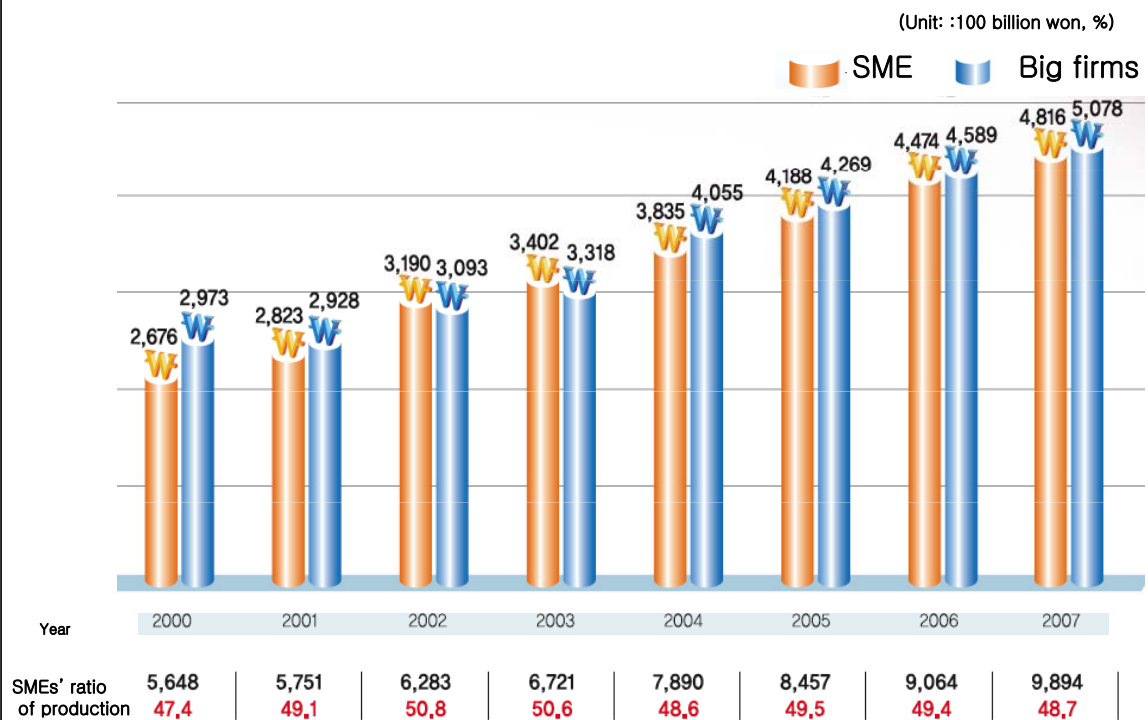
### ◆ The number of manufacturing establishments in Korean Economy (5 employee or more)



◆ The number of manufacturing employee in Korean Economy(5 employee or more)



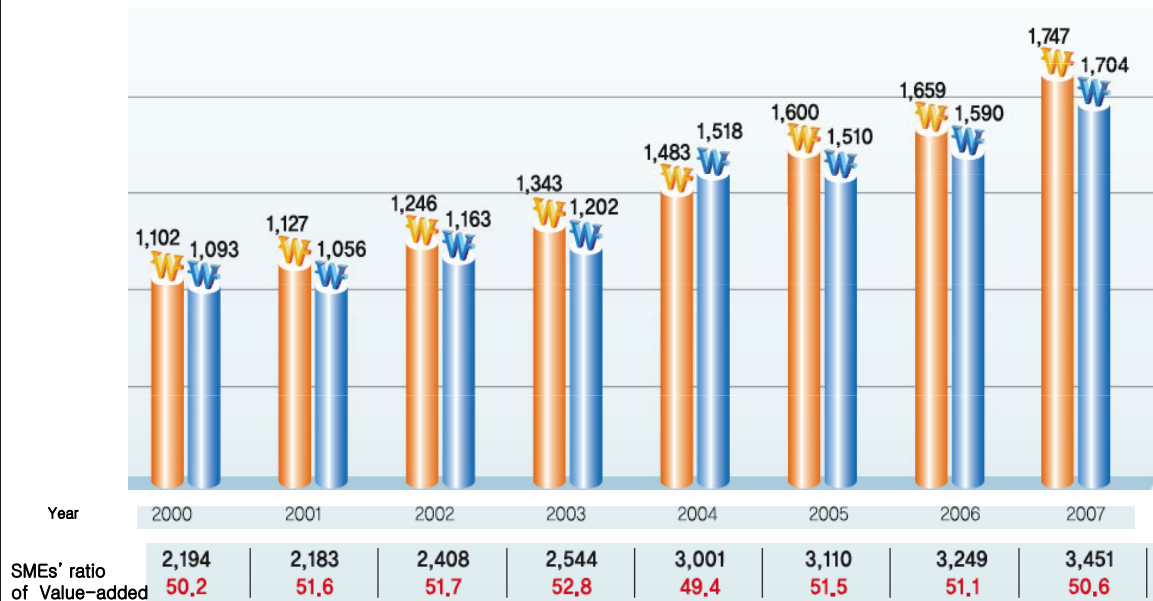
◆ Manufacturing production in Korean Economy(5 employee or more)



◆ Manufacturing Value-added in Korean Economy(5 employee or more)

(Unit: :100 billion won, %)

SME Big firms

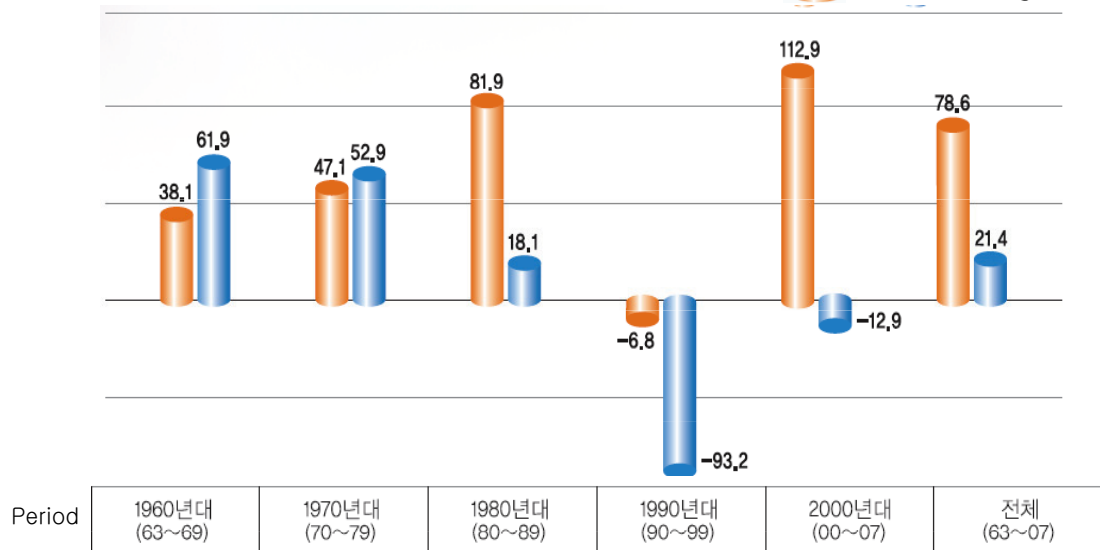


(6) The Contribution of SMEs' Manufacturing Industry to the Development of Korean Economy

◆The Contribution of SMEs ' manufacturing industry to the employment

(Unit: : %)

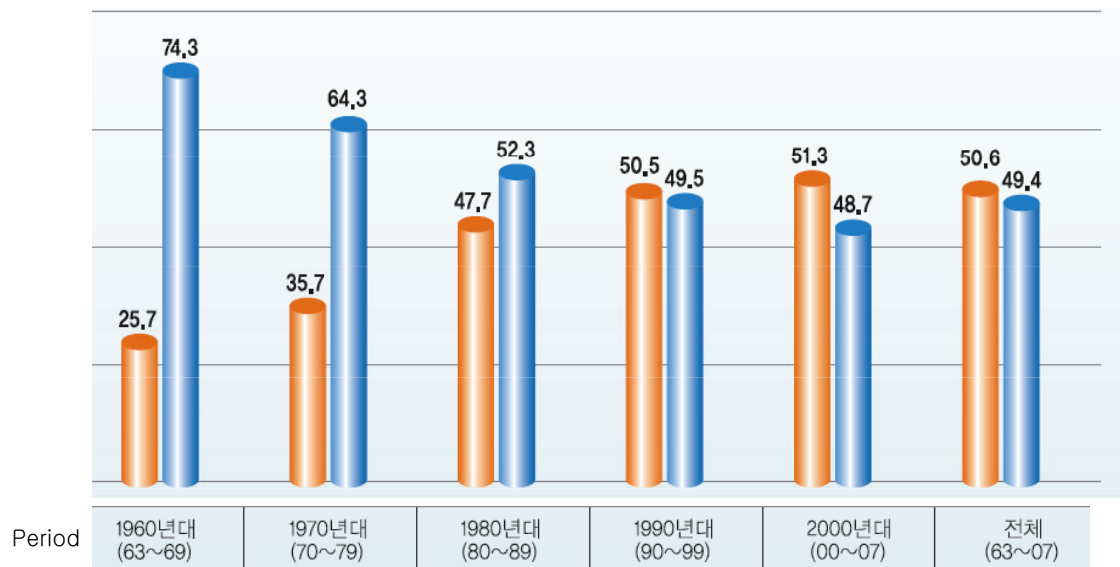
SME Big firms



◆ The Contribution of SMEs' manufacturing industry to the value-added

(Unit: %)

■ SME ■ Big firms

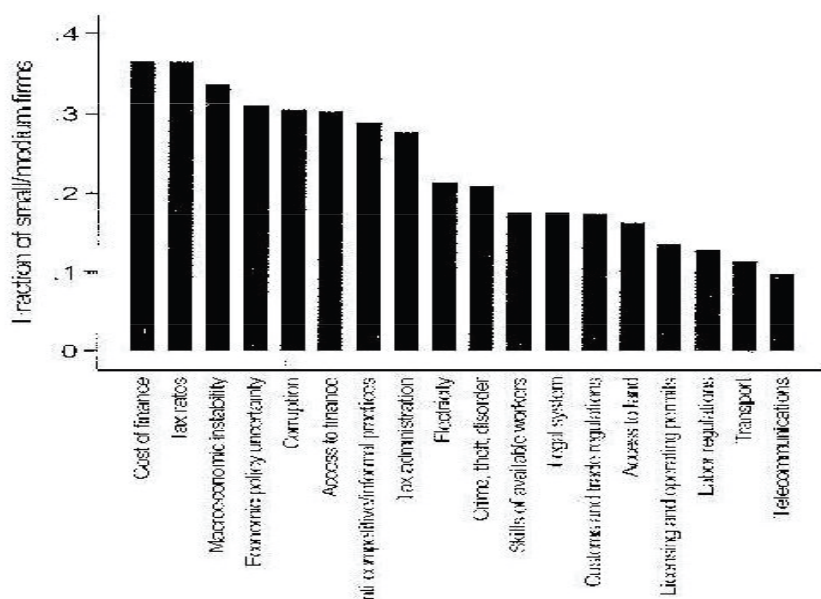


### 3. SMEs' Constraints for Growth

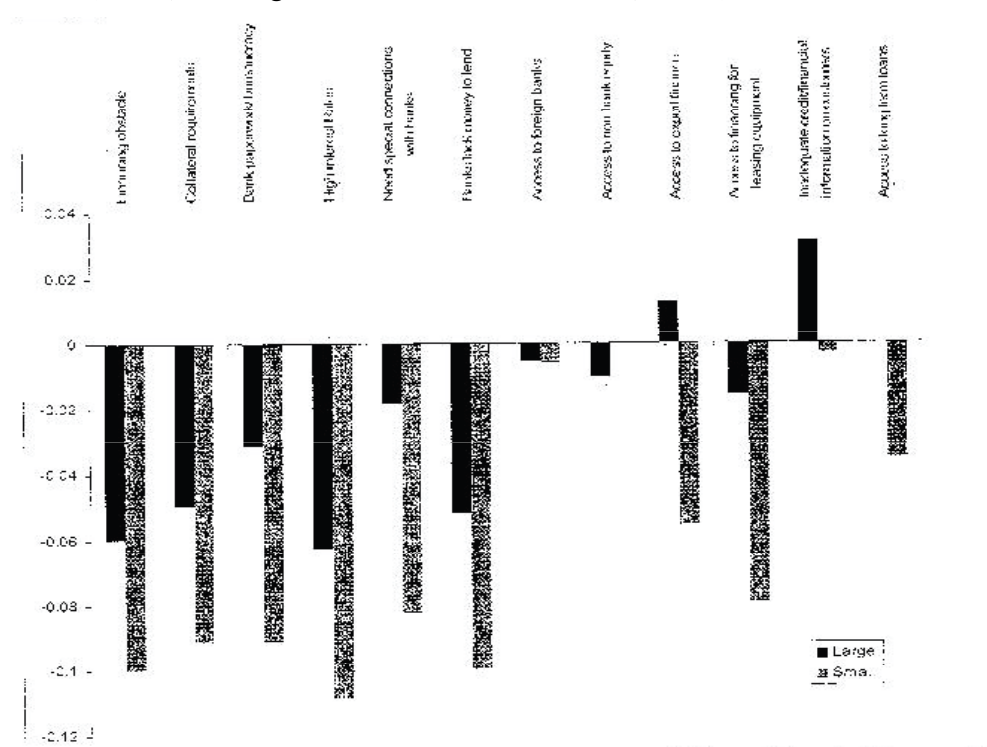
- ◆ Beck(2007) makes following observation from the World Bank's Enterprise Survey on growth constraint of SMEs:

crucial constraints are the financial factors such as cost of finance and access to finance as shown in the next graph.

◆ Growth constraints reported by small and medium-size enterprises (Beck, 2007)



◆ Growth effects of financing obstacles across firms of different sizes (Beck, Demirgüç-Kunt and Maksimovic, 2005)



Three facts that constrain business are:

- (1) financial difficulties have a far greater effect on the growth rate of the smaller firms than that of the larger firms
- (2) the difference between small and large firms is bigger for some specific financing obstacles, as collateral requirements, bank paperwork, interest rate payments, the need for special connections and bank's lack of lending resources.
- (3) the lack of access to specific forms of financing such as export, leasing and long-term finance is more constraining both for small firms' growth and for large firms' growth

⇒ These show the need for government's financial support for SMEs.



# U.S.A. SMEs' Obstacles : SSBF 1998 and 2003

단위: %

problem	1998				2003			
	9 or fewer	10 – 49	50–99	100– 499	9 or fewer	10 – 49	50 – 99	100 – 499
Taxes	7.2	5.5	2.8	4	5.4	6.1	1.5	2.9
Inflation	0.4	0.4	0.3	0.3	1.9	3.7	2.9	2.2
Poor sales	7.6	6.5	7.6	7.1	20.9	13.7	15.4	12.3
Financing and interest rates	6.9	6.7	4.2	3.2	6.5	3.5	3	1.5
Labor cost	3.2	6.2	14.8	9.7	1.2	1.9	4.1	2.6
Government regulation and red tape	6.9	6	7.4	8.9	4.1	4.9	8.2	5
Competitions from larger firms	11	12.6	9.7	15.6	3.3	4.5	5.1	4
Quality of labor	10.2	23.7	25.6	24.4	4.8	15.3	13.8	15.1
Cost and availability of insurance	2.3	2.5	0.3	0.1	8.5	14.9	13.7	14.6
other	44.3	29.9	27.4	26.7	43.4	31.5	32.3	39.8

자료: Bitler, et al(2001); Mach and Wolken(2006)

## Constraints and Determinants for Korean SMEs' Business By 2000 Survey

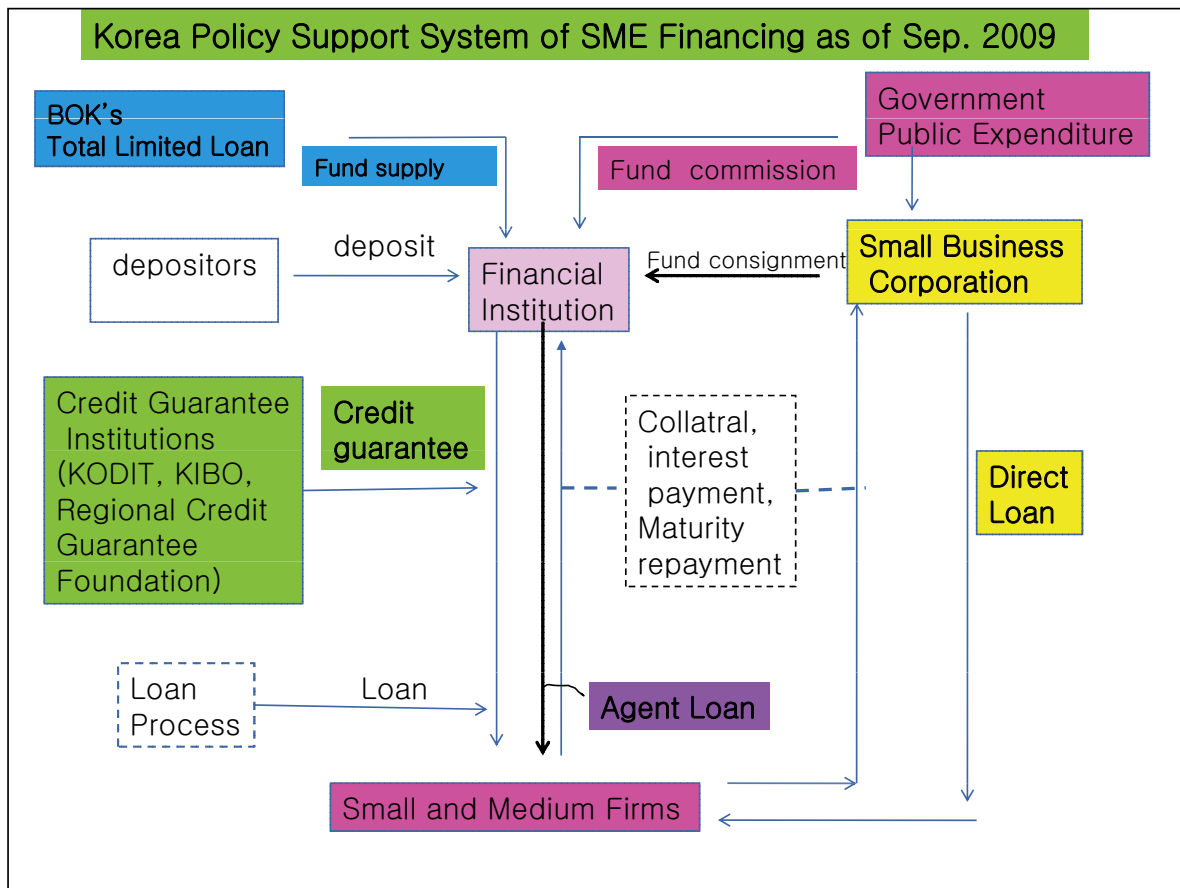
constraints to business		factors to affect business	
financing	24.4	price of raw materials	40.5
labor shortage	21.6	labor cost	19.0
sales	17.5	exchange rate	16.9
raw materials purchase	12.0	interest rate	12.9
technolgy innovation	10.9	price level	5.7
other	13.6	other	5.0

### Survey on the access to external finance

year	so good(%)	relatively good(%)	so-so (%)	worse(%)	much worse (%)
1990		15.7	39.8	18.2	13
1995		6.4	24.9	53.2	15.5
1997	0.6	11.2	22.2	47.1	18.9
1998	2.1	20.9	22	37.7	17.3
1999	3.4	44.3	32.1	16.6	3.6
2000	0.8	23.4	35.3	33.3	7.2
2001	1.8	22	35.3	35.7	5.2
2002	2.3	23.9	44.1	27.4	2.3
2003	0.5	7.8	32.2	47.5	12
2004	0.7	9.1	29.3	49.3	11.6
2005	0.4	12.3	34.8	42	10.4
2006	1.1	11.8	41.2	37.8	8.1

#### 4. Korea Policy Support System for SME Financing

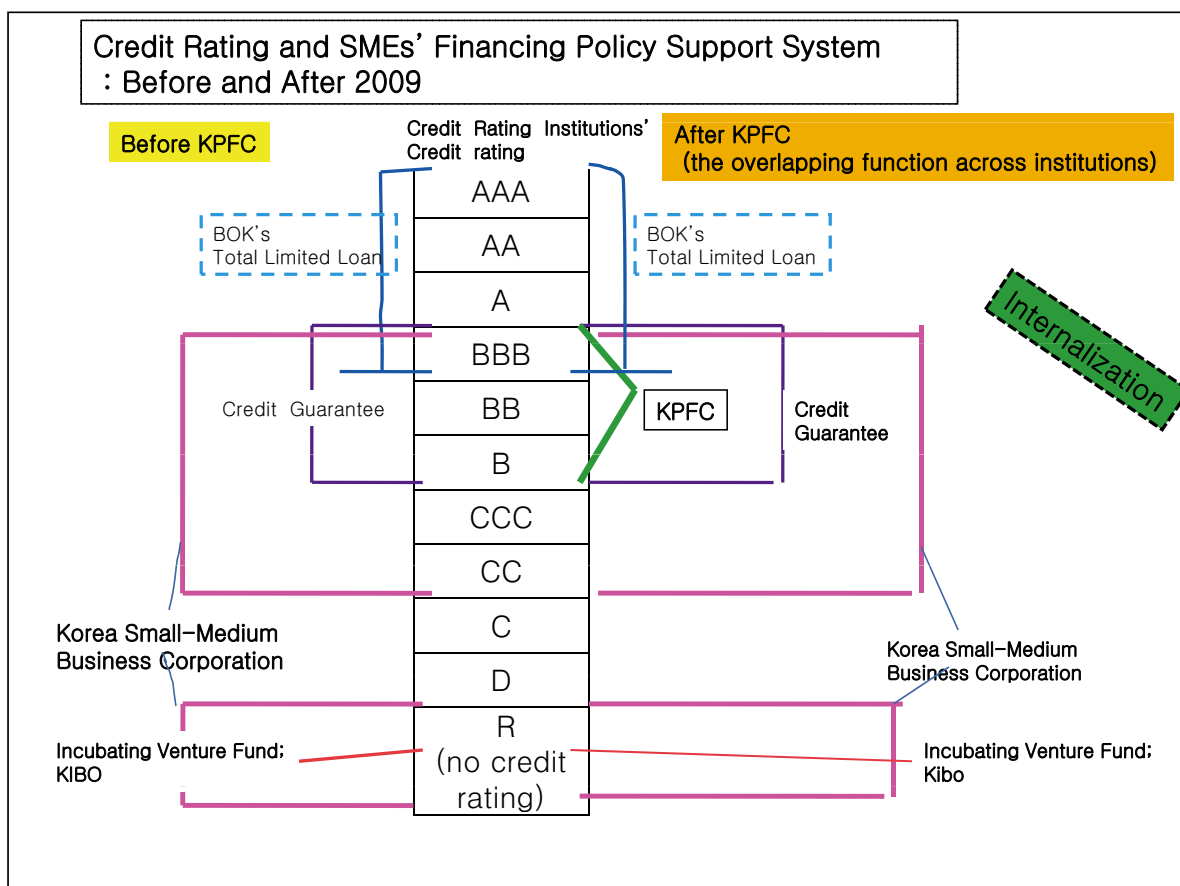
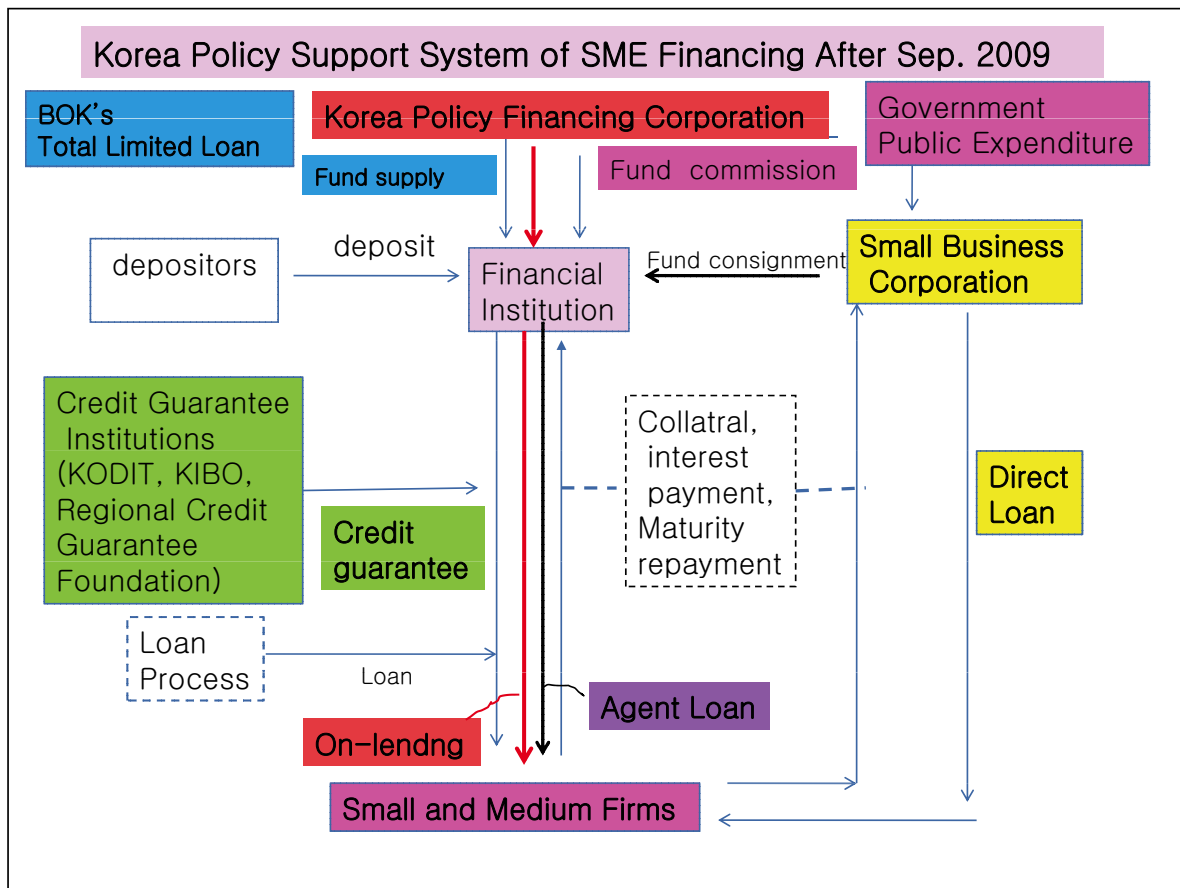
- ◆ SMEs' policy support financing system in Korea has been working through SMBC's loan, 3 guarantee institutions, and BOK's total limited loan.



◆ Korea policy support system for SMEs Financing will be changed after Sep. 2009

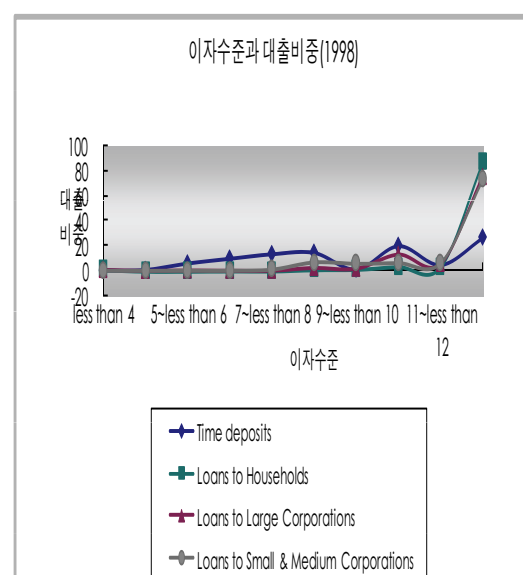
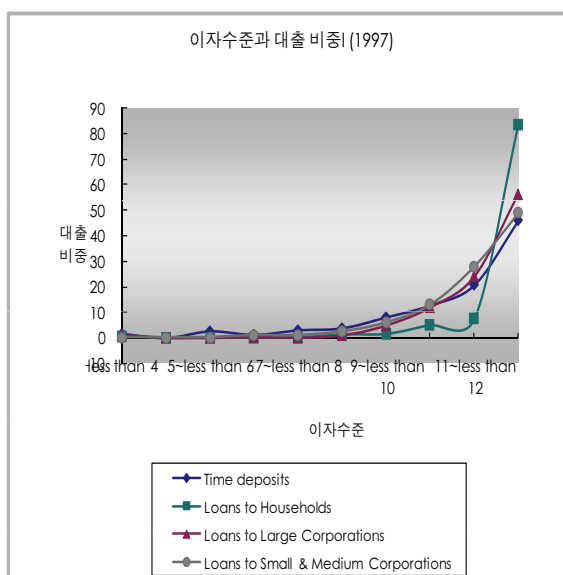
\* The Law on Korea Policy Financing Corporation(KPFC) is enacted on June, 2009

- The Korea Development Bank is divided into Commercial Bank (the name of bank is not decided) and Korea Policy Financing Corporation(KPFC) through privatization
- > KPFC can play a powerful role under the Financial Supervision Commission.
- Law allows KPFC to do a wide scope of financing including SMEs' policy support system.
- > According to the government officials, the main purpose of KPFC is on-lending.

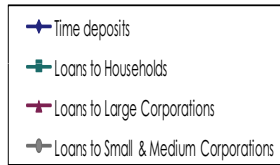
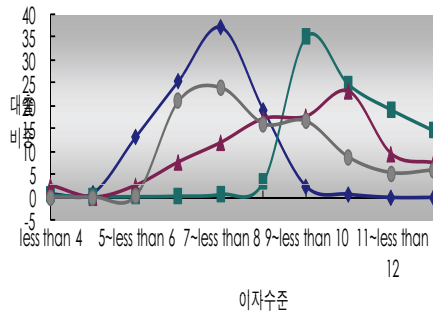


## 5. Korean Financial Institutions' Interest Rate Range and The Need of Policy Support

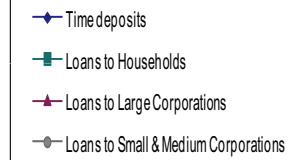
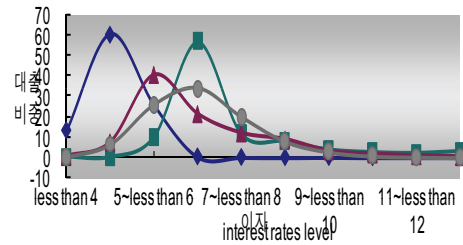
- ◆ Korean financial institution's interest rate range highlights the need of government's financial support.
  - The following graph shows the range of interest rate that SMEs with investment credit rating face
  - Many start-up or venture firms with no or less than investment credit rating does not have an access to bank loans.



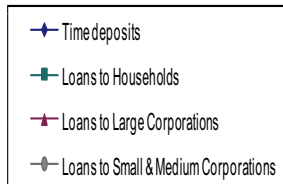
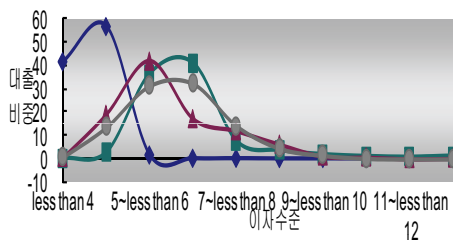
이자수준과 대출비중(1999)



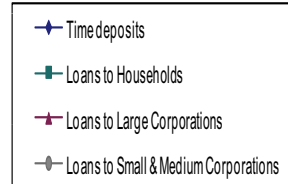
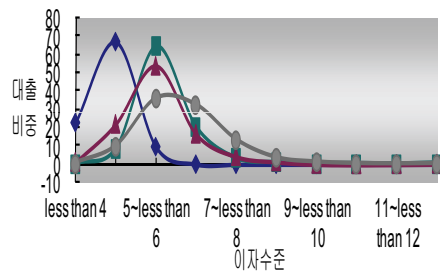
이자수준과 대출비중(2002)



이자수준과 대출비중 (2003)



이자수준과 대출비중(2006)





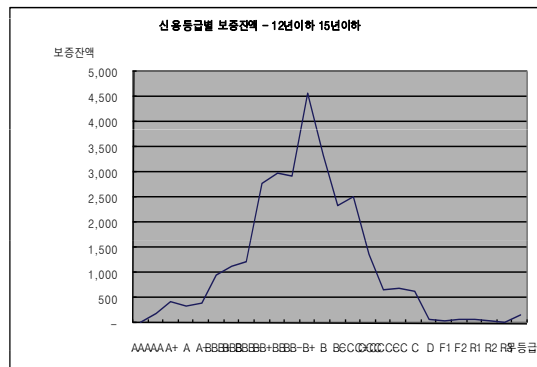
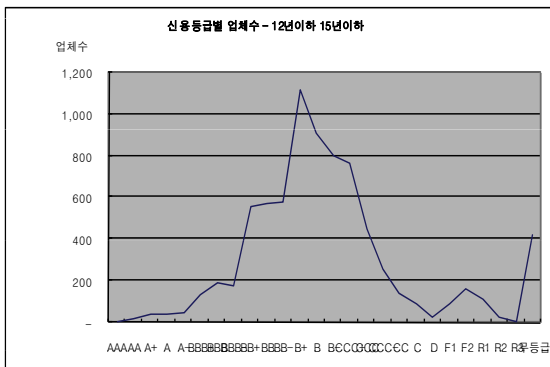
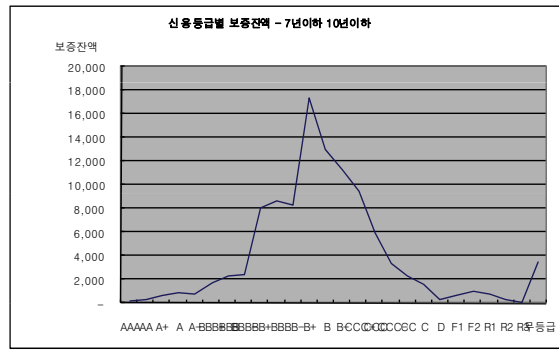
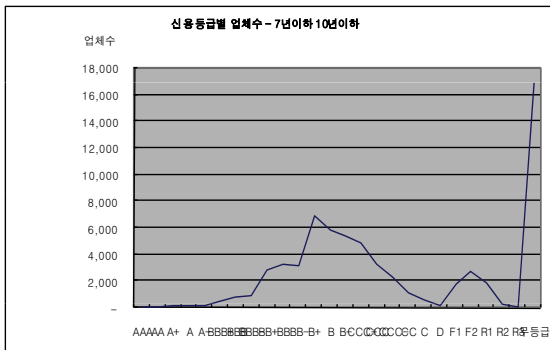
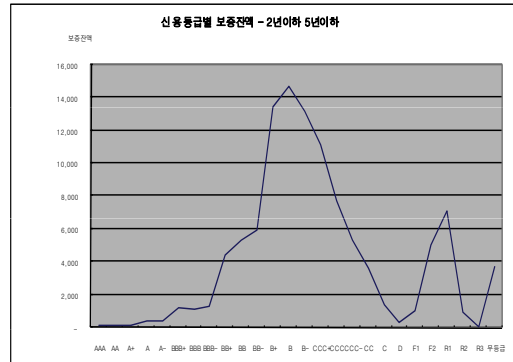
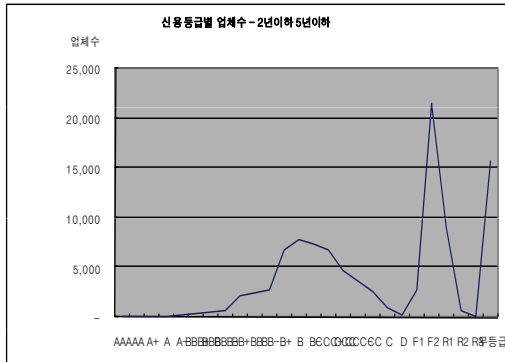
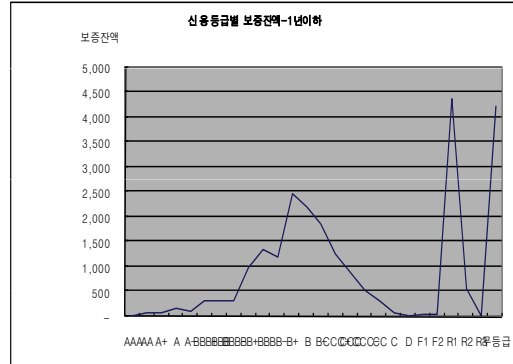
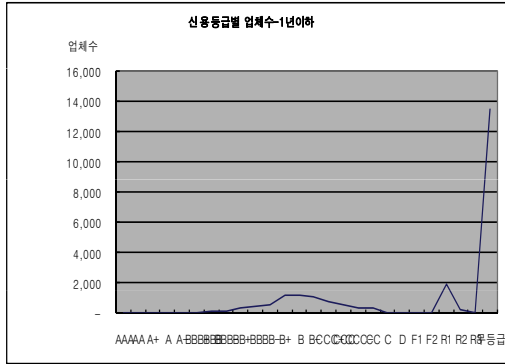
◆ Supporting financial policy is needed for start-up or venture SMEs which have no credit rating and hence have no access to bank loan.

⇒ For how long should financial lifeline be sustained?

(Case Study from KODIT's Data)

- This data shows how long it takes for start-up firm (with no credit rating) to reach an investment rating

⇒ Graph suggests that it takes at least 5 to 7 years for firm to reach the investment rating but interviews show that it may take up to 10 years.



## 6. Policy Support Composition of Korean SMEs' Access to Financing

- ◆ Policy support have two functions to solve market failure in financial markets:
  1. helps firms with credit rating less than the minimum that is required to access bank loans
  2. supplies direct loan to promising firms (by SMBC standard) that are rejected from other financial institutions. These firms have a high chance of going down, but this is a role of government under market failure.

### ◆ Korean SMEs' External Financing Composition\*

(unit : %)

	Bank	Policy support fund	Non-bank	equity	Corporate bond	Private bond	Foreign borrowing
2000	66.2	24.4	2.6	2.2	0.6	2.5	1.5
2001	69.0	25.0	2.0	1.4	1.0	1.1	0.5
2002	70.7	23.4	3.1	0.3	0.2	1.9	0.4
2003	73.2	19.4	3.4	0.5	0.3	2.1	0.9
2004	72.7	19.8	3.3	0.6	0.3	3.1	0.2
2005	72.2	22.7	2.8	0.0	0.3	1.3	0.8
2006	71.9	24.8	1.5	0.3	0.4	0.9	0.2

\* Policy support fund such as Ministry of Knowledge and Economy and Small Business Administration, including SBC's direct loan; non-bank institutions refer to Saving Bank, Community Credit Cooperatives (MG), Merchant Bank, Insurance, etc.

## Banks' loan to SMEs

(unit: trillion won, %)

	2000	2001	2002	2003	2004	2005	2006
Nationwide commercial banks (7 banks)	80.1 (61.5)	89.6 (61.8)	118.2 (64.0)	140.6 (59.1)	138.4 (56.8)	137.8 (53.7)	163.3 (54.1)
Local banks (6 banks)	13.2 (10.1)	14.4 (9.9)	17.5 (9.5)	20.2 (8.5)	22.6 (9.3)	25.0 (9.7)	30.3 (10.0)
Specialized banks (4)	37.0 (28.4)	41.0 (28.3)	49.0 (26.5)	76.9 (32.4)	82.7 (33.9)	93.7 (36.5)	108.2 (35.9)
Total	130.2 (100.0)	145.0 (100.0)	184.7 (100.0)	237.7 (100.0)	243.7 (100.0)	256.5 (100.0)	301.8 (100.0)

Note: ( ) denotes the ration of SMEs' loan to total loan  
Source: Financial Supervision

## ◆ Bank's Industrial and Household Loan

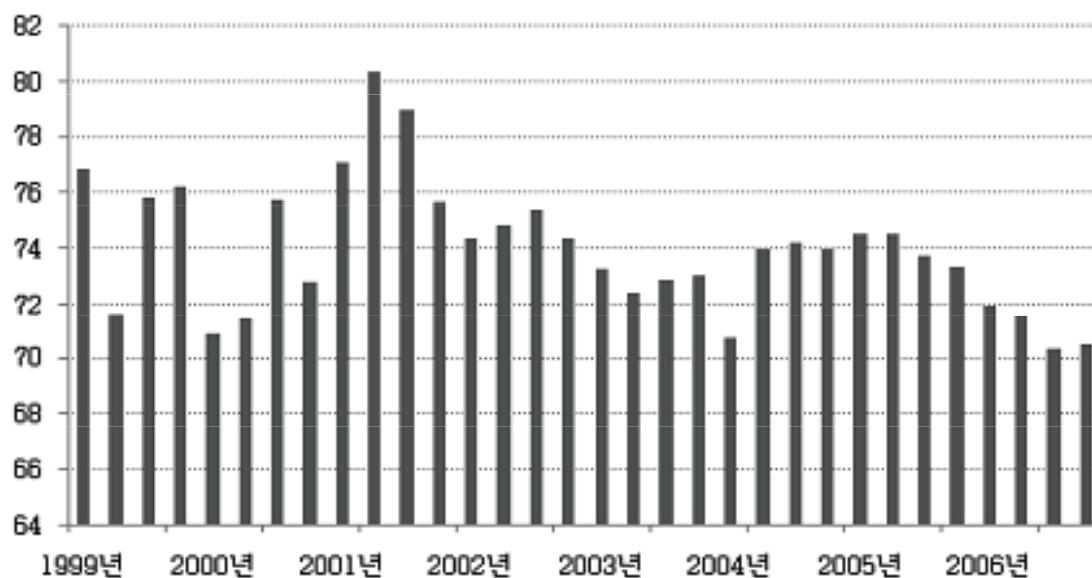
(unit: trillion won)

	2002	2003	2004	2005	2006	2007(1~10)	'07.October stock
Industrial loan	46.0	19.8	3.8	15.0	42.2	67.7	385.3
(SMEs)	41.1	28.2	6.9	11.0	43.5	60.5	350.7
(Big Firm)	5.0	-7.8	-3.1	3.9	-1.3	7.2	34.5
Household Loan	63.1	29.8	22.5	29.4	40.9	14.8	360.4
(mortgage guarantee)	45.7	21.7	16.4	20.3	27.0	2.9	219.9

Note: loan includes trust account , but Korea Development Bank is not included.  
Source: Bank of Korea

◆ ratio of Less than 1 year maturity Loan to SMEs' loan by Bank

(unit : %)



### External Financing Conditions from Financial Institutions

(unit: %)

	Real estate collateral	Credit guarantee	Deposit collateral	Joint and several surety	Pure Credit	Bank payment guarantee
2000	50.9	26.6	8.4	4.7	7.0	2.4
2001	46.9	27.8	8.5	5.6	9.4	1.8
2002	50.9	28.0	7.1	3.9	8.2	1.9
2003	42.5	30.0	7.5	4.2	13.1	2.7
2004	42.0	30.4	10.0	3.3	11.9	2.4
2005	43.3	30.1	7.6	3.0	11.7	4.3
2006	46.2	22.9	6.3	3.6	17.2	3.8

Source : Korea federation of small and medium business, "Surveys on SMEs' Financial Use and Obstacles", each year

◆ SMEs' Policy Support for credit guarantee: stock and guarantee recipient firms

(amount unit : 100 million won)

		1998	1999	2000	2001	2002	2003	2004	2005	2006
Kodit	amount	214,542	196,209	202,784	232,672	256,885	283,933	305,148	291,528	285,250
	Number of firms	122,486	196,570	259,405	272,019	267,494	270,886	252,544	223,430	203,512
Kibo	amount	113,402	113,055	124,977	137,448	141,263	144,190	133,766	115,013	111,508
	Number of firms	55,574	65,313	74,215	80,641	89,159	100,363	80,685	67,642	51,659
Regional Credit Guarantee Foundation	amount	2,247	5,594	10,114	15,058	19,326	23,124	26,269	34,133	40,327
	Number of firms	3,050	14,376	29,867	50,076	70,023	89,347	99,688	136,228	164,386
Total	amount	330,191	314,858	337,875	385,178	417,474	451,247	465,183	440,674	437,085
	Number of firms	181,110	276,259	363,487	402,736	426,676	460,596	432,917	427,300	419,557

◆ SMEs' policy support: Korea SMBC's Loan

(amount unit: 100million)

		Application		Actual Policy support	
		Number of case	amount	Number of case	amount
2006	Direct loan	6,697	27,814	3,729	12,173
	Agent loan	2,685	20,451	2,471	15,377
	total	9,382	48,265	6,200	27,550
2007	Direct loan	5,443	22,689	3,224	11,250
	Agent loan	2,947	23,843	2,622	15,963
	total	8,390	46,532	5,846	27,213
2008	Direct loan	5,602	22,297	4,600	14,648
	Agent loan	2,732	20,557	2,993	17,364
	total	8,334	42,854	7,593	32,012
May 2009	Direct loan	9,415	36,239	5,769	15,384
	Agent loan	4,332	28,693	3,767	21,217
	total	13,747	64,932	9,536	36,601



## SMBC's Loan to Small Commercial and Industrial firms

(amount unit: 100million)

	2000	2001	2002	2003	2004	2005	2006
Loan supply	17,737	22,197	21,324	26,603	26,265	31,387	28,328
Number of Firms	15,197	20,204	17,877	20,011	19,458	24,775	22,069
Small Commercial and Industrial firms	–	–	12,643	13,914	14,199	18,535	16,300

note: loan supply to Small Commercial and Industrial firms' establishments and improvements  
Source: Korea SBA(SMBC Data)

## SMBC's loan Supply by employee

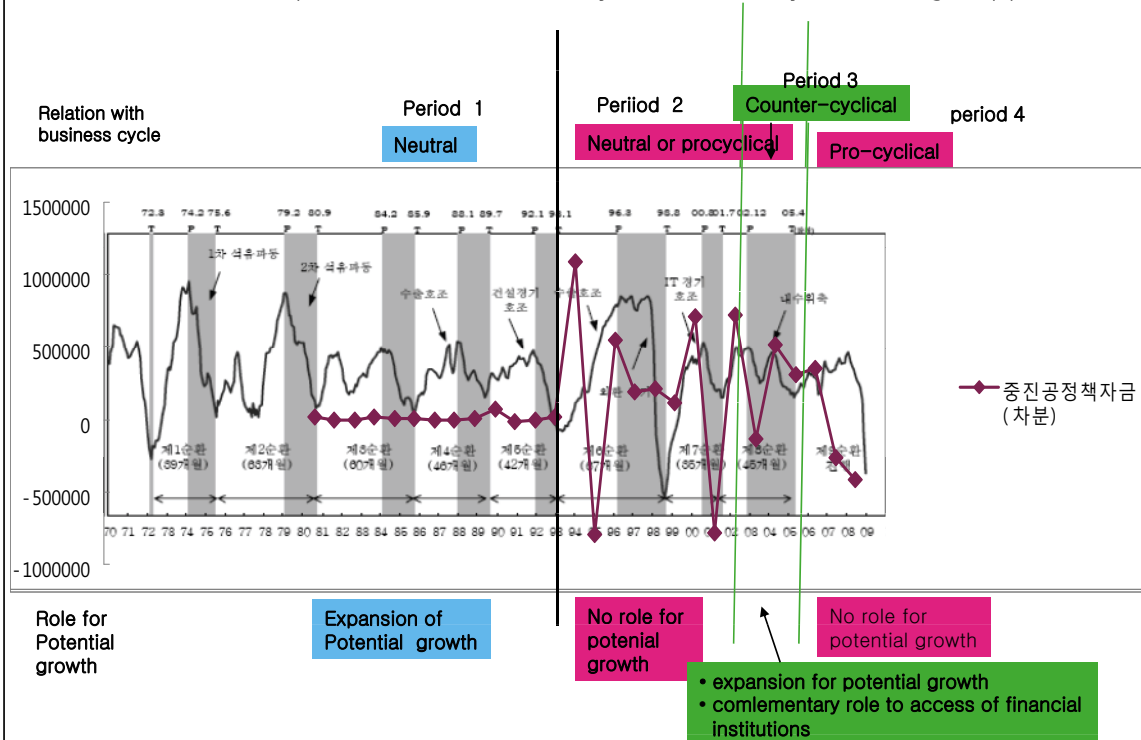
(Amount unit: 100million)

# of employee	2006				2007				2008				May 2009			
	case		amount		case		amount		case		amount		case		amount	
		%		%		%		%		%		%		%		%
5 or less	908	15.7	2,685	11.2	949	16.9	2,830	11.4	1,046	15.8	3,491	13.2	1,251	16.2	2,892	12.1
20 or less	2,262	39.2	7,443	31.1	2,159	38.5	8,211	33.1	2,387	36.0	7,967	30.2	3,250	42.0	8,488	35.4
50 or less	1,633	28.3	7,479	31.2	1,527	27.2	7,412	29.9	1,987	29.9	8,090	30.8	2,113	27.3	7,480	31.2
Sub- total	4,803	83.3	17,607	73.6	4,635	82.6	18,453	74.4	5,420	81.7	19,548	74.2	6,614	85.6	18,860	78.6
100인 이하	614	10.6	3,609	15.1	636	11.3	3,840	15.5	771	11.5	4,020	15.2	734	9.5	3,276	13.7
300인 이하	325	5.6	2,477	10.3	324	5.8	2,335	9.4	430	6.5	2,635	10.0	369	4.8	1,783	7.4
300인 초과	27	0.5	240	1.0	17	0.3	175	0.7	17	0.3	146	0.6	14	0.2	80	0.3
소계	966	16.7	6,326	26.4	977	17.4	6,350	25.6	1,218	18.3	6,801	25.8	1,117	14.4	5,139	21.4
합계	5,769	100	23,933	100	5,612	100	24,803	100	6,638	100	26,349	100	7,731	100	23,999	100

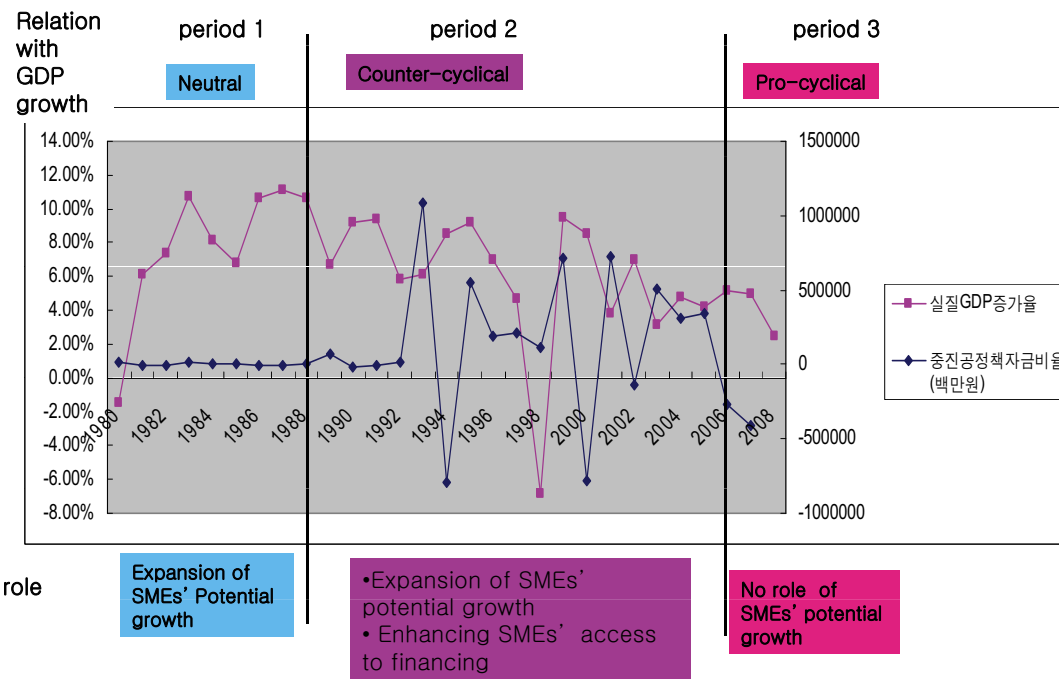
## 7. Korea Small and Medium Business Corporation's Role in SMEs' Funding

- ◆ SMBC's loan plays crucial role in overcoming the Korean economic crisis
  - Counter-cyclical
  - Provides timely policy support for SMEs' financing
  - Complements market failure

### ◆ Relationship between Business Cycle and Policy Financing Support



## Relationship Between GDP growth rate and SMBC's loan difference



	SMBC's policy support		Credit Guarantee		Banks' loan to SMEs	
	Before 2006	After 2006	Before 2006	After 2006	Before 2004	After 2004
boom	Constant or decline	decline	increase	decline	decline	increase
bust	increase	increase	decline	increase	increase	decline

◆ Timely Support switching and development: History of Policy Support Menu

Policy support financing	Modernization(merged after '79~'89 )
	Cooperative production complex('79~present)
	Traditional craftwork industry fostering ('80~'93)
	Agriculture and factory combined complex('84~present)
	Start-up preparation ('84~'94)
	Business switching(old)('88~'94)
	Facilities oversea transfer('88~'94)
	Automation(process improvement)('88~'94)
	Information(base creation)('89~'98)
	Technology Development('89~'94)
	Big firms' business transfer('89~'94)
	Small firms fostering('90~'94)
	Management stability(93)('98~'06) (including specialized management)
	Structural Improvement(Improving facilities)('93~present)
	Knowledge-based service(merged after '93~'04 )
	Specialized cooperation('94~'95)
	Technology-combines counseling('94~'95)
	small venture establishments('98~present)
	Commercialization of Developed Technology('00~present)
	Export Financing('01~present)
	Business switching(new)('06~present)
	Trade adjustment('07~present)
	Growth-sharing ('08~present)
	Casualties recovery('04~present)
	Raw and subsidiary materials('04~present)
	capital investment('87~'04)
	ABS(asset-backed securities)('00~present)
	Start-up incubating center('94~present)
	Venture firm certificate('98~present)

Enhancing the structuring and Consulting	Management skill consulting('79~present)
	Oversea technician invitation ('01~present)
	inter-industry exchange('89~present)
	Inter-firm business cooperation('04~present)
	Inno-cafe, Net-work Hub('03~present)
	RIS('04~present)
	Region-specialized leading firms('05~present)
	New product development('97~present)
	Technology development('01~present)
Study and Training	Management-technology study and training('79~present)
International Cooperation and oversea marketing	International cooperation('82~present)
	oversea marketing('98~present)
	south-north cooperation('00~present)
manpower/exhibition	exhibition('98~'04)
	manpower('96~'98)
Information provision	analysis and research('79~present)
	Publication('79~present)
	IT-based management facilities assistance('01~'06)
	E-business('93~present)
	Lottery business('95~'06)

Thanks for your attention

I wish you have happy hour in Korea.



# APEC SME INNOVATION CENTER & SME SUPPORT PROGRAMS IN KOREA

*Hyun Suk Shim*  
*General Manager of Global Cooperation Department*  
*Small & medium Business Corporation*

*August 25, Seoul Korea*

## CONTENTS

### 1. APEC SMEIC

- Vision and Role
- History
- 2009 Activities



### 2. SME assistance Program

- Overview of SBC
- Major programs



## VISION & ROLE

### \* Vision

- Promote economic activities and co-prosperity in the APEC region by strengthening the innovation capacity of SMEs

### \* Role

- Provide workshops and seminars for innovation capacity building
- Develop and disseminate SME innovation models
- Establish cooperative networks for SME innovation



## HISTORY

September 2005 – APEC Ministerial Meeting in Daegu adopted the proposal to establish the APEC SME Innovation Center in article 11 of the Joint Ministerial Statement

February 2006 – APEC SMEIC established at the Korea Technology and Information Promotion Agency for SMEs

January 2009 – APEC SMEIC Secretariat transferred to the Small and medium Business Corporation





## 2009 ACTIVITIES



Consulting



Business Matchmaking



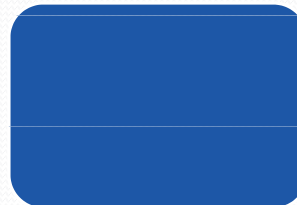
e-Business Cooperation



Innovation Portal



Innovation Briefing



SME Innovation Seminar

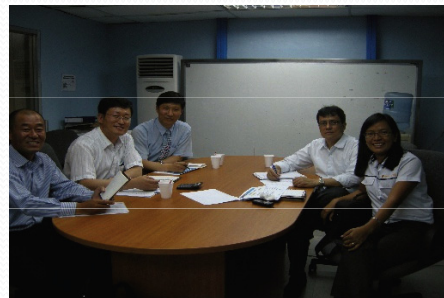
## 2009 ACTIVITIES



### ★ SME Consulting



< Raphael Legacy Design Inc.>



<SANYO SEIKI STAINLESS STEEL CORPORATION>

- Dispatch management and technology specialists to SMEs of APEC member economies
- Provide customized solutions based on on-site diagnosis and consulting utilizing “Comprehensive Diagnosis Tool” of SBC

## 2009 ACTIVITIES

### ★ SME Business Matchmaking



- Organize face-to-face business meetings in key fields to generate practical cooperation benefits among APEC member economies

## 2009 ACTIVITIES

### ★ SME e-Business Cooperation

- Provide a platform for e-business and information sharing through the linking of relevant APEC member websites

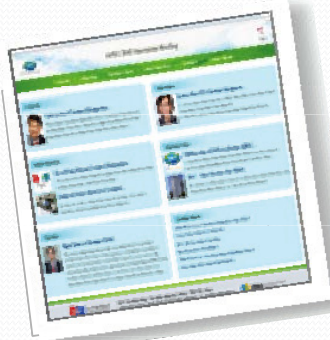


## 2009 ACTIVITIES



### \* SMEIC Website Innovation

- Provide information on innovation activities of SMEs in APEC region through the APEC SMEIC portal ([www.apec-smeic.org](http://www.apec-smeic.org))



### \* APEC SME Innovation Briefing

- Publish semiannual newsletter and disseminated through webmail to APEC SMEWG members.

## OVERVIEW OF SBC

### \* Who we are

- Non-profit government agency

### \* What we do

- Effectively implement government policies and programs for the sound growth and development of SMEs
- Provide a wide range of services including finance, consulting, training, marketing and international cooperation

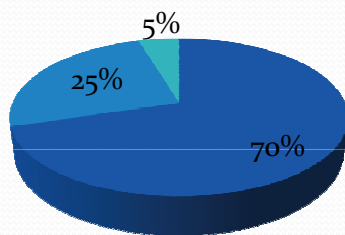
### \* Employees : 761

### \* Budget(2009) : US\$ 9.5 Billion



## SBC FUNDING & BUDGET

Revenue	
Government Contribution	US\$0.44 billion
Bond Issuing	US\$ 6.67 billion
Repayment, Interest and other income	US\$ 2.39 billion
<b>Total</b>	<b>US\$ 9.5 billion</b>



- Bond Issuing
- Repayment, interest and other income
- Government contribution

**FY2009 Budget: US\$ 9.5 billion**



## BRIEF HISTORY OF SBC

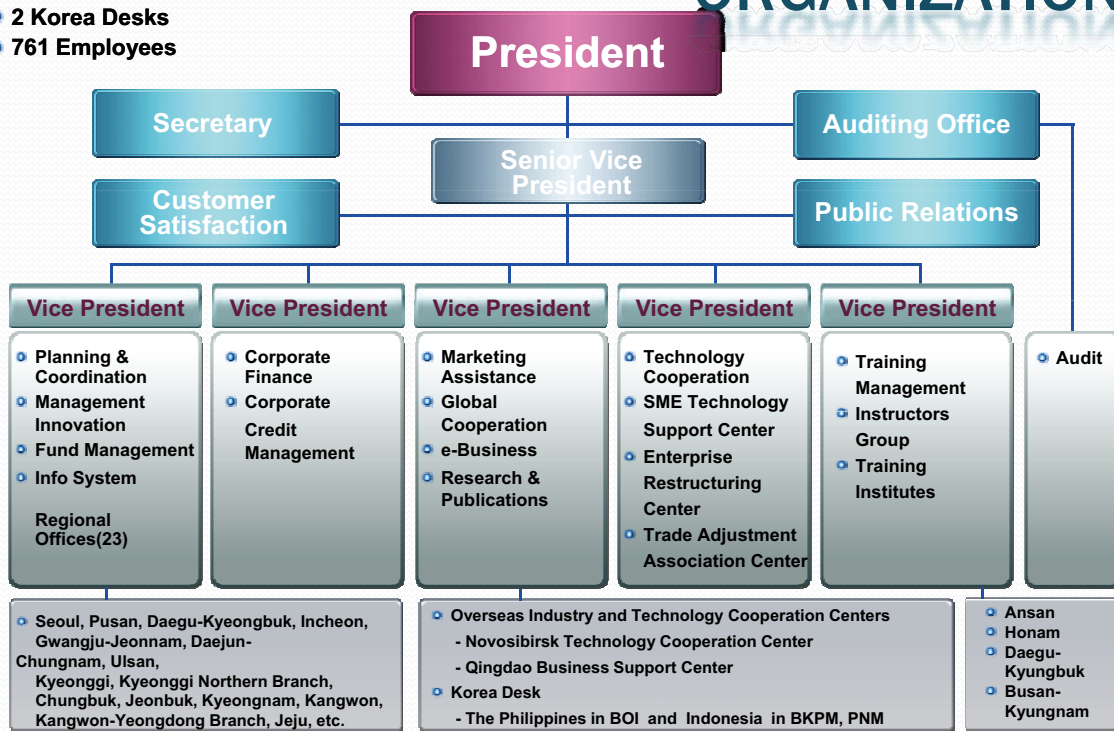
Date	Activities
Jan 1979	SBC established
Sep 1979	Overseas Office opened in Europe ('79), Japan ('83), USA ('83), China ('93)
Oct 1982	1 <sup>st</sup> Small Business Training Institutes established (Additional Institutes opened in Honam ('01), Daegu ('03), Busan ('04))
Feb 1985	1 <sup>st</sup> Regional office created (as for 2009, 23 offices created)
Jul 1995	Subsidiaries established : SBC Registrar ('95.7), Small Business Distribution Center Co. Ltd ('95.12), Korea Venture Investment ('00.3)
Sep 1998	1 <sup>st</sup> Korea Business Development Center opened: (as for 2009, 17 KBDC opened)
Mar 2005	Business Support Center opened in Qingdao
Jun 2006	Technology Cooperation Center opened in Novosibirsk
Jan 2007	Korea Desk opened : Indonesia ('07.1), Philippines ('08.2)
Jan 2009	Management of APEC SMEIC transferred to SBC



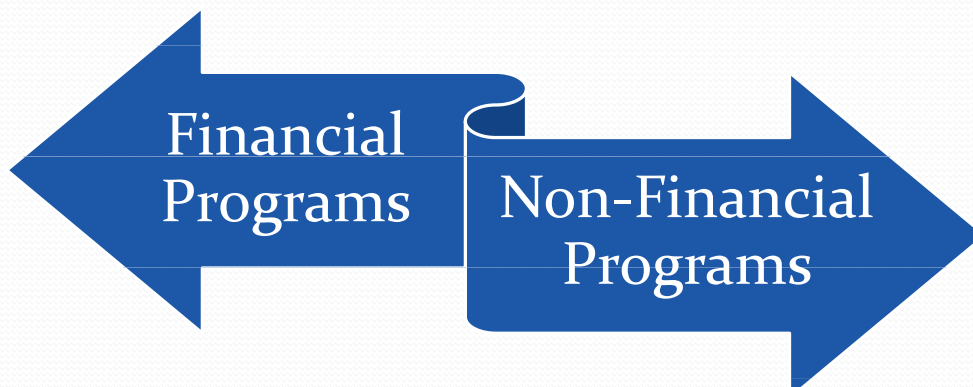


- 18 Departments
- 23 Regional Offices
- 2 Overseas Industry Technology Cooperation Centers
- 2 Korea Desks
- 761 Employees

## ORGANIZATION



## MAJOR PROGRAMS OF SBC



# FINANCIAL PROGRAMS

## \* Long-term, low-interest loans for

(Unit : US\$1 mil)

Programs	Budget
○ Venture Business Start-ups	1,000
○ Commercialization of R&D Results	258
○ Promotion of the new growth industries	1,210
○ Local Industry Development Program	300
○ Mgmt Stabilization	700
○ Industrial Structure Adjustment Program	147
○ Issuance of ABS	40
Subtotal	3,655
○ Micro-business Loans	600
Total	4,255

- Loan period : 5 to 9 years
- Interest rate : 3.84%, -4.74%, subject to loan programs
- Loan limit : up to US\$4mil. per year



# FINANCIAL PROGRAMS



## Venture Business Start-up Program



financing for venture firms in their early growth stages

support

started up their businesses in under

preparation stages of starting a

\*FY2009 : US\$1,000 Million

# FINANCIAL PROGRAMS



## Commercialization of R&D Results



...ncing for eligible SMEs  
...ommercialize their intellectual  
..., the R&D results from  
...cts, and/or industrial-  
... institute joint research

\*FY 2009 : US\$258 Million

# NON-FINANCIAL PROGRAMS



# NON-FINANCIAL PROGRAMS

## Global Cooperation Program



# NON-FINANCIAL PROGRAMS

## Global Cooperation Program



- ★ Industrial Coordinator Exchange Program
  - SBC exchanges industrial coordinators with organizations in Italy, Spain, Russia, Mongolia, South Africa, and China to develop business initiatives, exchange information, and more.





# NON-FINANCIAL PROGRAMS

## Overseas Network

- \* Industry and Technology Cooperation Centers
  - Novosibirsk Technology Cooperation Center
  - Qingdao Business Support Center in China
- \* Korea Development Cooperation Centers
  - BOI in the Philippines, BKPM and PNM in Indonesia
- \* International Counterparts Organizations
  - 175 organizations in 50 countries



# NON-FINANCIAL PROGRAMS

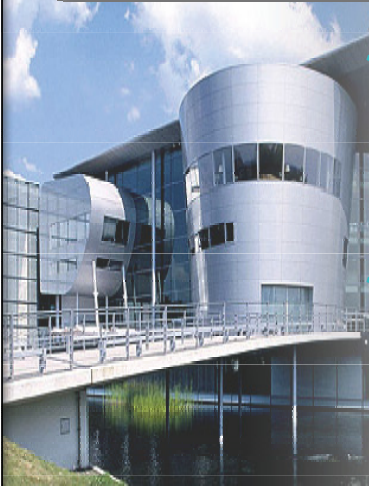
## Marketing Assistance Program

- \* Korea Development Center
  - 100+ KDCs located across 11 countries
- \* Marketing Assistance Centers
  - 100+ MACs in 29 countries
- \* [www.Gobizkorea.com](http://www.Gobizkorea.com)
  - One-stop marketplace for overseas buyers
  - 100,000+ products



# NON-FINANCIAL PROGRAMS

## Consulting Services Program



- Comprehensive customized support  
business conditions via on-site  
consulting

- Companies in 2008

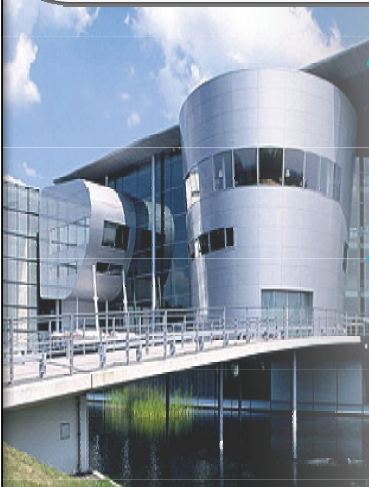


- Engineering Placement Program  
links highly skilled international  
with promising Korean SMEs in need  
of engineering skills and experience.



# NON-FINANCIAL PROGRAMS

## Consulting Services Program



- Commercialization Program  
For companies, SBC provides a complete  
assistance in commercializing ideas of  
product development to marketing
- Development Assistance Program  
Through the rapid proto-typing system at  
product development, all the way  
from design to actual proto-type



# NON-FINANCIAL PROGRAMS

## Information Services

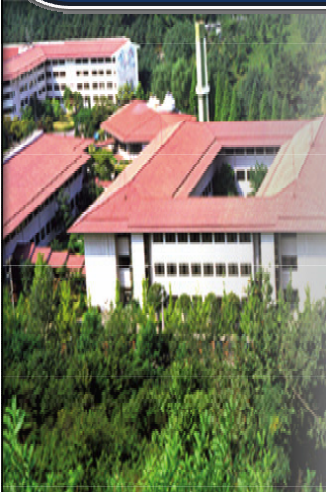


- digitalisme.com
- Information, DB of prospective Service
- Applications: Kiopnara / Tech and policy studies



# NON-FINANCIAL PROGRAMS

## Training Services



- Production-oriented practical, mgmt training to foster business growth based on improved
- Training performance : 70,000 training institutes

Photo : Small Business Training Institute (SBTI) in Ansan City





## High flying, Korean SMEs



## DEFINITION OF SMES IN KOREA

Industry	Small & Medium-sized Enterprises	
	Employees	Paid-in Capital. Revenue
Manufacturing	Less than 300	8 million USD or less (paid-in capital)
Transportation, Mining & Construction	Less than 300	3 million USD or less (paid-in capital)
Retail, Hotel, etc.	Less than 300	30 million USD or less (revenue)
Fishery, Film, Hospital, etc.	Less than 200	20 million USD or less (revenue)
Wholesale, Service, etc.	Less than 100	10 million USD or less (revenue)
Others	Less than 50	5 million USD or less (revenue)

Source : The Framework Act on SMEs

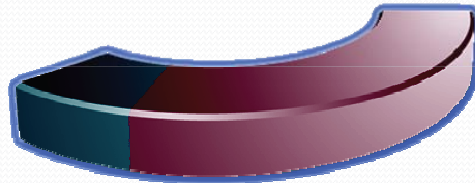
## ECONOMIC IMPORTANCE OF KOREAN SMES

No. of Companies



- Total : 3,022,053
- SMEs : 3,017,787 (99.9%)

No. of Employees



- Total : 12,445,088
- SMEs : 10,884,650 (87.5%)

Source : The National Statistics Office,  
Survey Report on Basic statistics of Businesses in Korea(2006)

## OVERSEAS INVESTMENT OF KOREAN SMES

Unit: USD 1 Million

2005



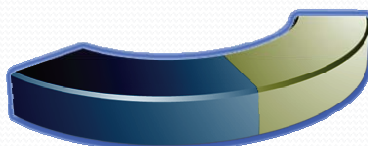
- Total : 6,792(4,473)
- SMEs : 2,241(1,648), 33.0%

2006



- Total : 10,957(5,145)
- SMEs : 3,369(1,911), 30.7%

2007



- Total : 20,352(5,540)
- SMEs : 5,662(2,235), 27.8%

2008

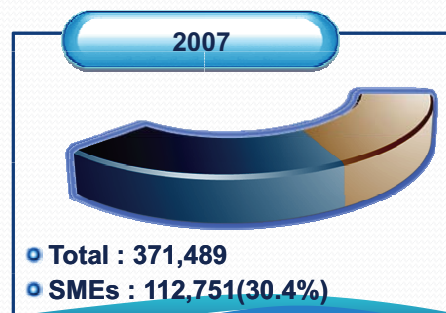
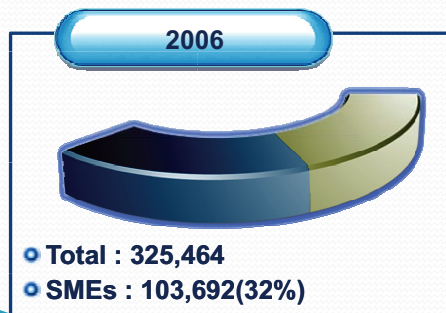
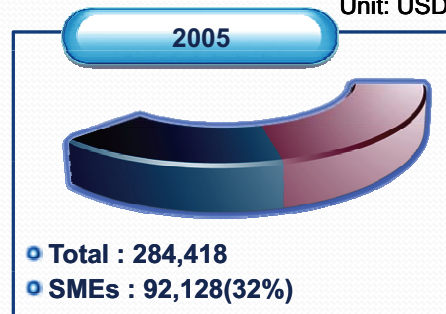
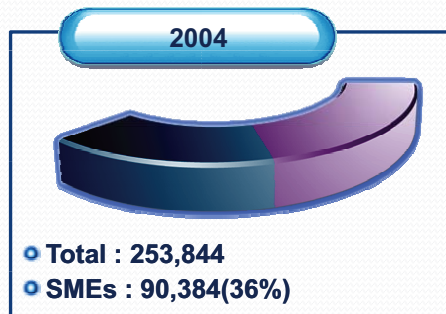


- Total : 17,115(3,533)
- SMEs : 4,713(1,645), 27.5%

Source : Korea Eximbank

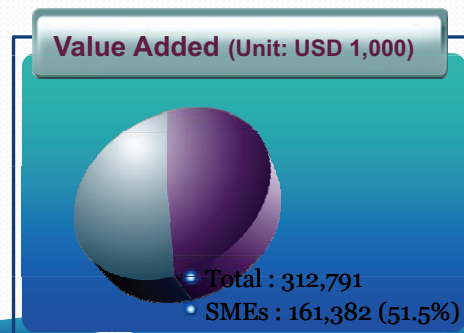
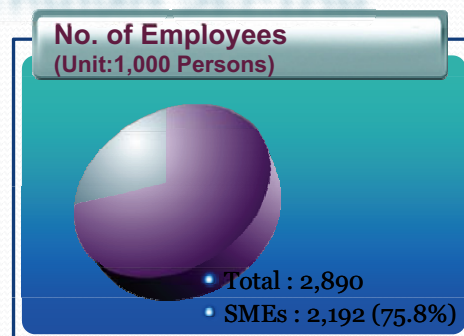
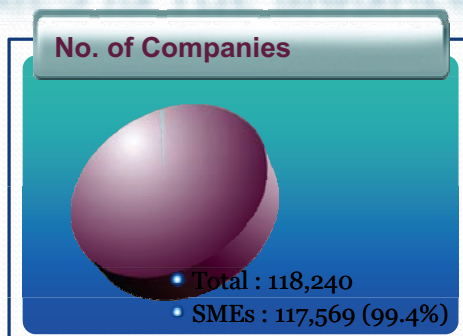
## EXPORT PERFORMANCE OF KOREAN SMES

Unit: USD 1 Million



Source : Korea Federation of SM Business

## SMES IN THE MANUFACTURING SECTOR



Thank you  
[www.apec-smeic.org](http://www.apec-smeic.org)



