

Korea

SMEs in the national economy

SMEs constituted 99.9% of industrial enterprises and employed 86.8% of the industrial labour force in 2010.

Table 4.46. **Distribution of firms in Korea, 2007-10**

	Number of firms (thousands)				Number of employees (thousands)			
	Total	Large firms	SMEs	SMEs (%)	Total	Large firms	SMEs	SMEs (%)
2007	3 050	3	3 047	99.9	12 819	1 475	11 344	88.5
2008	3 047	3	3 044	99.9	13 071	1 603	11 468	87.7
2009	3 069	3	3 066	99.9	13 398	1 647	11 751	87.7
2010	3 125	3	3 122	99.9	14 136	1 873	12 263	86.8

Note: Data on for profit businesses (individual, company, and corporation) on the basis of national businesses survey according to SME basic law. Includes non-employer firms and excludes financial firms.

Source: Korea Small and Medium Business Administration.

StatLink  <http://dx.doi.org/10.1787/888932795637>

Microenterprises while comprising more than 93.5% of all enterprises contained non-employer firms. Small and medium sized firms were 6.4% of the total.

Table 4.47. **Distribution of firms in Korea, 2010**

By firm size

Firm size (employees)	Number	%
All firms	3 125 457	100.0
SMEs (1-299)	3 123 284	99.9
<i>Micro (1-9)</i>	<i>2 921 868</i>	<i>93.5</i>
<i>Small (10-49)</i>	<i>175 028</i>	<i>5.6</i>
<i>Medium (50-299)</i>	<i>26 388</i>	<i>0.8</i>
Large (299+)	2 173	0.1

Note: Non-employer firms are counted as firms with one employee.

StatLink  <http://dx.doi.org/10.1787/888932795656>

SME lending

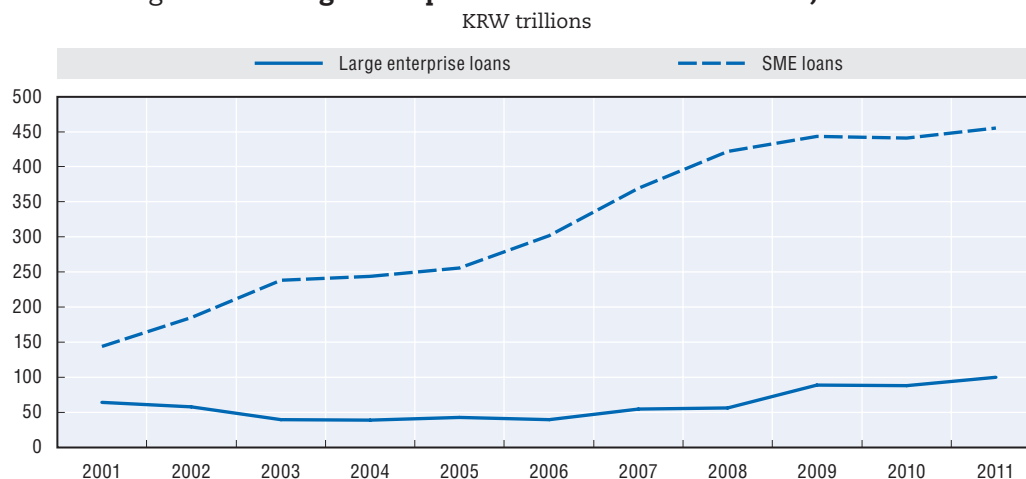
Korea's definition of an SME varies by sector (see Box 4.6). SME and total business loans increased over the period under study. SME loan shares were calculated on the basis of total business loans outstanding (i.e., stocks). The SME share of business loans declined from 86.8% (2007) to 77.7% (2011). This was probably due to the more conservative attitude of the banks at the end of the period. At the beginning of the crisis SMEs had access to credit despite the rather alarming rates of increase in non-performing SME loans: 124% between 2007 and 2008 and 46% between 2009 and 2010. In 2011, non-performing loans declined to nearly their 2008 level. Data for non-performing loans include domestic and foreign currency loans.

Credit conditions


The average interest rates charged on outstanding SME loans continued to increase between 2007 and 2011. In addition, they were higher than rates charged in western economies, which had assumed loose monetary stances. The higher rates probably reflected the greater risks faced by Korean banks and inflation. Interest rate spreads declined over the period. Banks eased lending conditions for SMEs not because of their willingness to absorb SMEs' credit risks, which were high, but because of the government's advice to banks to automatically roll over loans to SMEs. Roll-over rates reached 90%. The government justified this approach on the grounds that banks were not capable of making an accurate assessment of the viability of borrowers during the crisis. Additionally, government guarantee programmes, discussed below, contributed to the banks' lending behaviour to SMEs despite their own liquidity shortages and difficulty in meeting regulatory standards. By the end of 2011, domestic banks carried KRW 455 billion in SME loans or an increase of 23% over 2007.

After the Korean currency crisis in 1997, the large corporations accessed financing in the form of corporate bonds and equity. Meanwhile, the banking sector focused on SME loans, which had government guarantees. Therefore, SME loans increased dramatically over 15 years.

Figure 4.28. **Large enterprise and SME loans in Korea, 2001-11**



Source: Financial Supervisory Service (FSS), Small and Medium Business Administration (SMBA).

StatLink  <http://dx.doi.org/10.1787/888932794174>

Equity financing

Venture and growth capital declined between 2007 and 2008 as in other countries but rebounded in 2009, 2010 and in 2011 so that it exceeded its 2007 level.

Table 4.48. **Venture and growth capital, 2007-11**

KRW billion

Stage	2007	2008	2009	2010	2011
Early	365.0	290.8	247.6	319.2	372.2
Expansion	377.4	255.3	260.1	290.4	329.6
Later	249.3	178.6	359.4	481.4	559.0
Total	991.7	724.7	867.1	1 091.0	1 260.8

Source: Small and Medium Business Administration (SMBA).

StatLink  <http://dx.doi.org/10.1787/888932795675>

Venture capital was concentrated in the early and expansion stages in 2007. By 2011 venture capital investment was concentrated in the later-stage firms (44.3%) whereas the early and expansion stages were 29.6% and 26.1%, respectively.

Other indicators

Data on payment delays were for loans overdue rather than for the average payment delays of customers, suppliers or government. Overdue loans declined in 2009 but rose again in 2011. Although many SMEs in Korea were financially pinched after the outbreak of the global financial crisis, they avoided bankruptcy, thanks to the financial support from the government. Bankruptcies actually decreased steadily from 2009 to 2011 because firms missing payments were not declared insolvent. Bankruptcies in 2011 decreased 13.4%. It could be said that while SMEs avoided bankruptcy because of the policies of the central and regional governments, they still were financially stressed.

Government policy response

There was a 42% increase in the amount of government guaranteed loans during the crisis (2007-2009). Also, the guarantee coverage ratio was raised temporarily from 85% to 95%, or even 100% in the case of export credit guarantees. While the Small Business Corporation (SBC) increased its direct lending by only 6.2% between 2007 and 2008; there was a dramatic jump in 2009 (83%). During the recovery, direct loans declined indicating this type of government assistance was easing off. But at the same time, the SBC loan authorisation rate remained well above 50%.

In 2011, the outstanding government guaranteed loans were KRW 69.9 trillion which included loans that were backed by both national and regional funds. Policy loans (direct and indirect loans) provided by the SBC totalled KRW 15.1 trillion. They supported 85 000 SMEs and remedied market failures and enhanced the competitiveness of SMEs. The Korean Government is now actively looking for other cost effective ways to support SME lending. It is considering targeted support for high-performing SMEs versus the general support it has been giving to the SME sector as a whole.

Box 4.6. Definition of SMEs used in Korea's SME and entrepreneur scoreboard

BOK (Bank of Korea) and FSS (Financial Supervisory Service) have the same definition of small and medium-sized enterprises (SMEs).

SMEs denotes an establishment that has less than 300 regular employees or paid-in-capital less than or equal to KRW 8 billion (about USD 8 million). This definition of SMEs is based on the Article 2 of the Framework Act on Small and Medium Enterprises and Article 3 of its enforcement decree. SMEs can also be defined as follows:

Definition of SMEs used by BOK and FSS

Sector ¹	SMEs		Small business	Micro-enterprises
	No of workers	Capital and sales	No. of workers	
Manufacturing	Less than 300	Capital worth USD 8 m or less	Less than 50	Less than 10
Mining, construction and transportation	Less than 300	Capital worth USD 3 m or less	Less than 50	Less than 10
Large general retail stores, hotel, recreational condominium operation, communications, information processing and other computer-related industries, engineering service, hospital and broadcasting	Less than 300	Sales worth USD 30 m or less	Less than 10	Less than 5
Seed and seedling production, fishing, electrical, gas and waterworks, medical and orthopaedic products, wholesales, fuel and related products wholesales, mail order sale, door-to-door sale, tour agency, warehouses and transportation-related service, professional, science and technology service, business support service, movie, amusement and theme park operation	Less than 200	Sales worth USD 20 m or less	Less than 10	Less than 5
Wholesale and product intermediation, machinery equipment rent for industrial use, R&D for natural science, public performance, news provision, botanical garden, zoo and natural parks, waste water treatment, waste disposal and cleaning related service	Less than 100	Sales worth USD 10 m or less	Less than 10	Less than 5
Other sectors	Less than 50	Sales worth USD 5 m or less	Less than 10	Less than 5

1. General Criteria (Article 2 of Framework Act on SMEs and Article 3 of Enforcement Decree of the Act). For micro-enterprises, Article 2 of the Act of Special Measures on Assisting Small Business and Micro-enterprises shall apply.

Table 4.49. **SME and entrepreneur scoreboard for Korea, 2007-11**

Indicators	Units	2007	2008	2009	2010	2011
Debt						
Business loans, SMEs	KRW trillions	369	422	443	441	455
Business loans, total	KRW trillions	425	511	531	541	586
Business loans, SMEs	% of total business loans	86.8	82.6	83.5	81.5	77.7
Short-term loans, SMEs	KRW trillions	319	375	373
Long-term loans, SMEs	KRW trillions	106	136	158
Total short and long-term loans, SMEs	KRW trillions	425	511	531
Short-term loans, SMEs	% of total SME loans	86.4	88.8	84.2
Government guaranteed loans, SMEs	KRW trillions	39.70	42.90	56.30	56.10	55.46
Government guaranteed loans, SMEs	% of SME business loans	10.8	10.2	12.7	12.7	12.2
Direct government loans, SMEs	KRW trillions	2.5	2.6	4.8	3.1	3.0
Loans authorised, SMEs	KRW trillions	2.72	3.20	5.82	3.42	3.35
Loans requested, SMEs	KRW trillions	4.65	6.06	9.82	6.66	5.93
Ratio of loans authorised to requested, SMEs	%	58.5	52.8	59.3	51.3	56.6
Non-performing loans, SMEs	KRW trillions	3.45	7.71	6.85	10.0	7.9
Non-performing loans, SMEs	% of SME business loans	0.9	1.8	1.5	2.3	1.7
Average interest rate	%	6.95	7.08	7.20	7.37	7.49
Interest rate spread	%	0.76	0.79	0.56	0.54	0.55
Equity						
Venture and growth capital	KRW trillions	992	725	867	1091	1261
Venture and growth capital	Year-on-year growth rate, %	..	-26.9	19.7	25.8	15.6
Other						
Payment delays, SMEs	Number of days past due date	11.0	12.1	9.9	12.1	11.7
Bankruptcies, total	Number	2 294	2 735	1 998	1 570	1 359
Bankruptcies, total	Year-on-year growth rate, %	..	19.2	-26.9	-21.4	-13.4

Source: Refer to Table 4.50.


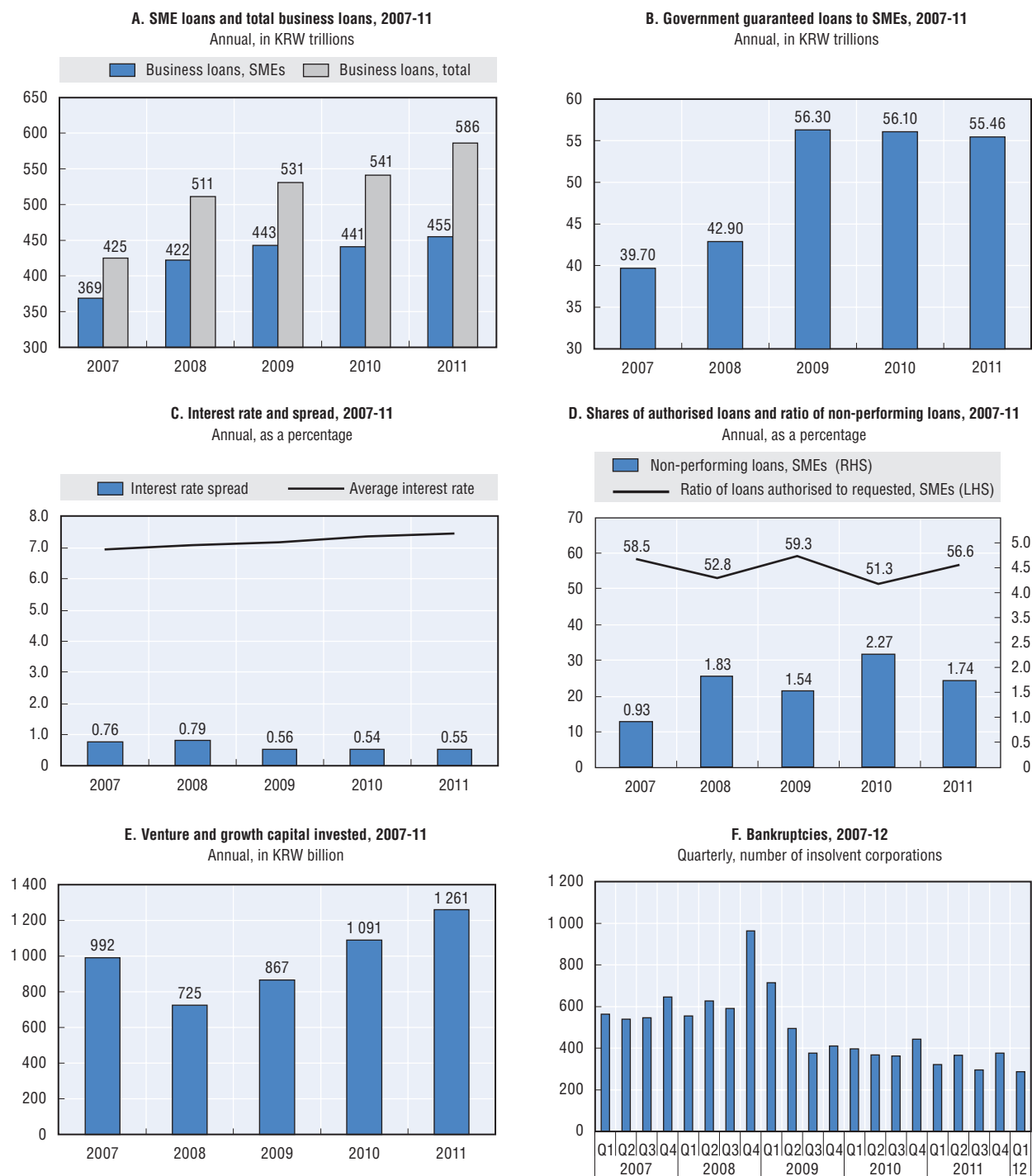
StatLink  <http://dx.doi.org/10.1787/888932795694>

Figure 4.29. Trends in SME and entrepreneurship finance in Korea



Sources: Chart A: Financial Supervisory Service (FSS). Chart B: Financial Supervisory Service (FSS) & Small and Medium Business Administration (SMBA). Chart C: Bank of Korea (BOK). Chart D: Small and Medium Business Administration (SMBA). Chart E: Small Business Corporation (SBC). Chart F: Small Business Corporation (SBC).

StatLink  <http://dx.doi.org/10.1787/888932794193>

Table 4.50. **SME and entrepreneur definitions and sources of indicators for Korea's scoreboard**

Indicators	Definition	Source
Debt		
Business loans, SMEs	Bank (Commercial Bank + Specialised bank) loans to non-financial SMEs, amount outstanding, stocks.	Financial Supervisory Service (FSS)
Business loans, total	Business bank (Commercial Bank + Specialised bank) loans to all non-financial enterprises, amount outstanding, stocks.	Financial Supervisory Service (FSS)
Short-term loans, SMEs	Outstanding amounts, loans of less than one year.	Financial Supervisory Service (FSS)
Long-term loans, SMEs	Outstanding amounts, loans of greater than one year.	Financial Supervisory Service (FSS)
Government guaranteed loans, SMEs	Value of loans guaranteed by KODIT, KIBO; stocks.	Financial Supervisory Service (FSS) and Small and Medium Business Administration (SMBA)
Direct government loans, SMEs	Direct government loans supplied and executed by the SBC only.	Small Business Corporation (SBC)
Loans authorised, SMEs	Direct government loans from the SBC data base (not from commercial banks). Includes executed and non-executed loans which have been authorised.	Small Business Corporation (SBC)
Loans requested, SMEs	Direct government loans from the SBC database (not from commercial banks).	Small Business Corporation (SBC)
Non-performing loans, SMEs	Domestic Banks' SME non-performing loans out of total credit including Won-denominated loans, foreign currency-denominated loans, credit card receivables and others (outstanding amount).	Financial Supervisory Service (FSS)
Average interest rate	Average interest rates charged on new loans during the period.	Bank of Korea (BOK)
Interest rate spread (between average rate for SMEs and large firms)	SME loan rate - Large corporation loan rate.	Bank of Korea (BOK)
Equity		
Venture and growth capital	Annual amounts invested including early, expansion and later stages.	Small and Medium Business Administration (SMBA)
Other		
Payment delays, SMEs	Average days of delay past loan contract date.	Small and Medium Business Administration (SMBA)
Bankruptcies, total	Bankrupt firms in Small Business Corporation's portfolio.	Small Business Corporation (SBC)



From:
Financing SMEs and Entrepreneurs 2013
An OECD Scoreboard

Access the complete publication at:
https://doi.org/10.1787/fin_sme_ent-2013-en

Please cite this chapter as:

OECD (2013), "Korea", in *Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/fin_sme_ent-2013-15-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.