

Towards a Better Framework for Supply of Funds in Asian Financial Markets: Lessons from Korea

KIM & CHANG | February 10, 2012

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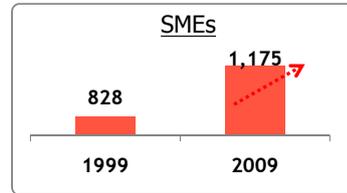
SMEs in Korea

Contribution of SMEs

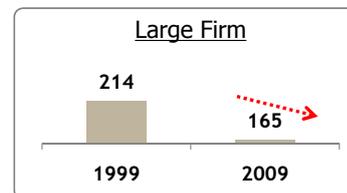
	Manufacturing SMEs	All SMEs
No. of Companies	99.2%	99.9%
No. of Employees	73.0%	87.7%
Gross Industrial Output	47.6%	50.5%
Revenue	42.0%	By Export Contribution 32.3%

Note: Statistics Korea (KOSTAT) as of 2009 year-end

Job Creation



41.9% Up



22.9% Down

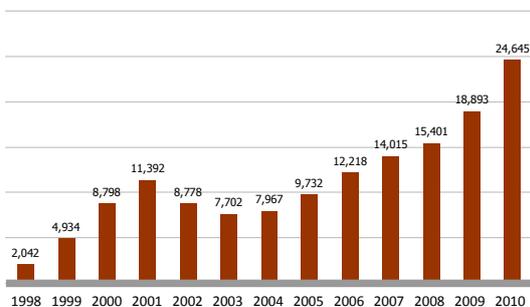
Note: No. of Employees : Ten Thousands

SMEs in Korea

Venture Companies

Cumulative Total

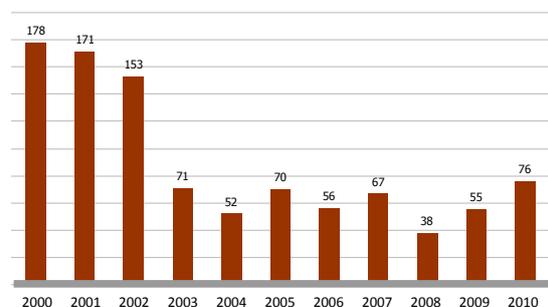
(Unit: No.)



KOSDAQ Listed Companies

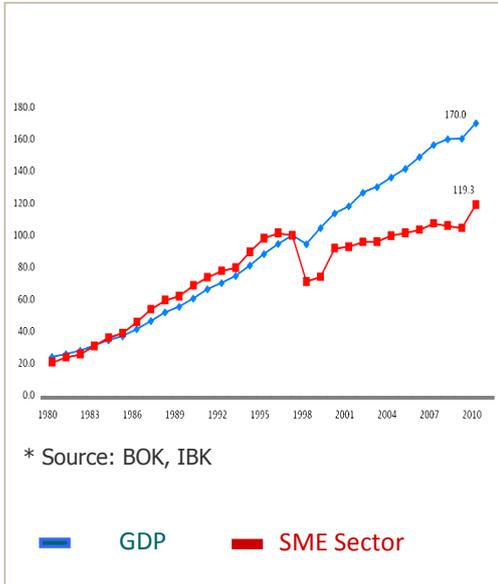
Newly Listed Co's

(Unit: No.)

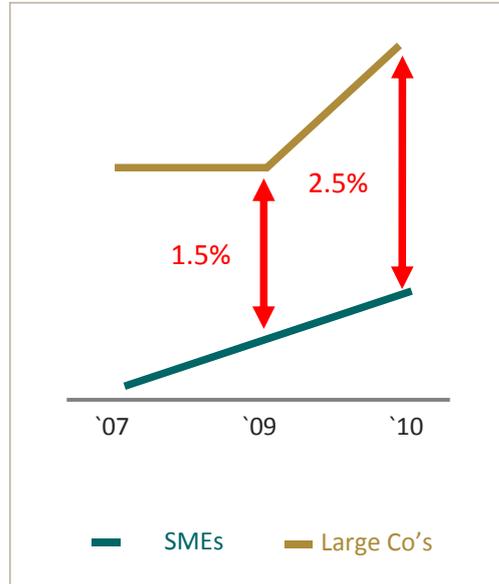


SMEs in Korea

SME Growth Trend (1997=100)



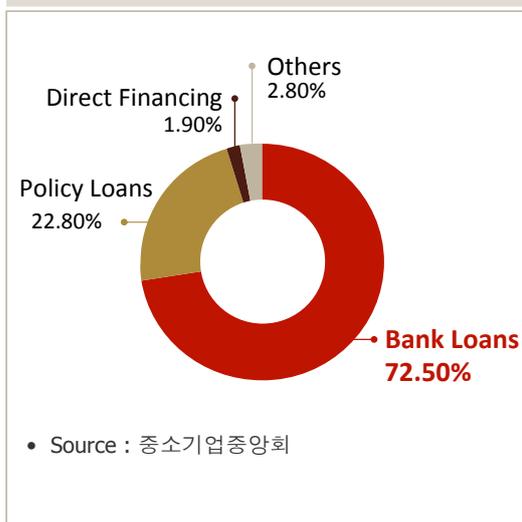
Ratio of Operating Profits to Revenues



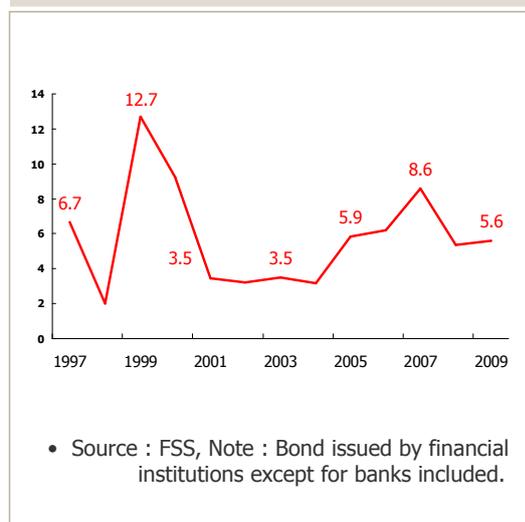
SME Financing in Korea

Heavy reliance on bank financing (very little direct financing)

SME Funding Source



SMEs' share in total Equity & Bond Issuance (%)



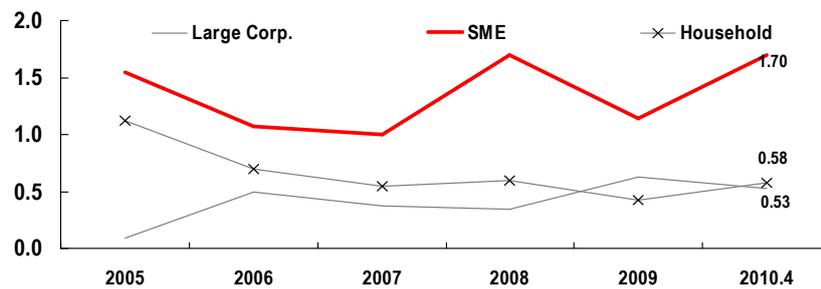
SME Financing in Korea

SME loans display higher delinquency rate than other loans

- Delinquency rate for SME loans is approx. 3 times higher than that of the household and large corporations.

→ Lenders reluctant to lend to SMEs

Delinquency Rate by Type of Loans (%)

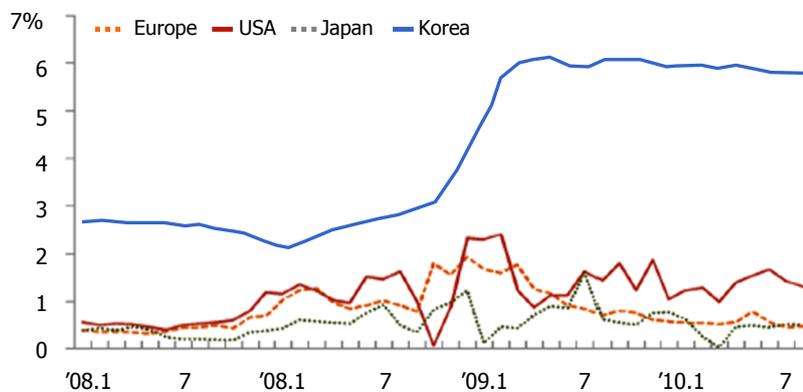


Source : FSS
Note: Based on Dec.-end figures

SME Financing in Korea

SMEs face high funding costs in debt capital market

Spreads of corporate bonds



* For Korea, spread between AA- and BBB-; for other countries, spread between AA and BBB

Financial Support System for SMEs

"Availability Expansion" policy

- SME Loan Ratio
- Aggregate Credit Ceiling Loan System
- Policy Funding
- Venture Capital Funding through KVIC



"Accessibility Enhancement" policy

- Credit Guarantee Institutions
 - KODIT (Korea Credit Guarantee Fund, 1976)
 - KOTEC (Korea Technology Credit Guarantee fund, 1986)
 - 14 Regional Credit Guarantee Foundations
- K-SURE (Korea Trade Insurance Corp., 1992)



"Corporate Restructuring Policy"

- Fast Track Program

Financial Support System for SMEs

SME Loan Ratio

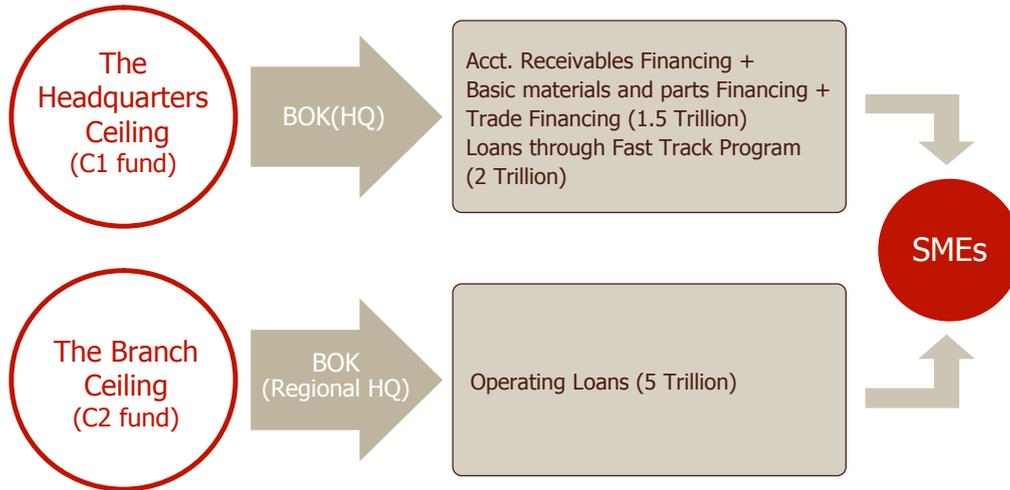
- Guidelines on Management of the Ratio of Loans to SMEs
- Since 1965, the BOK has been encouraging banks to expand their SME financing by regulating the minimum % of SME loans to total loan book.

	Standard	note
IBK	Over 70% of Bank's funding resources	The Industrial Bank of Korea Act
Commercial banks	Over 45% of extended loan	
Local Banks	Over 60% of extended loan	Bank of Korea Act
Foreign Banks	Over 35% of extended loan	

Financial Support System for SMEs

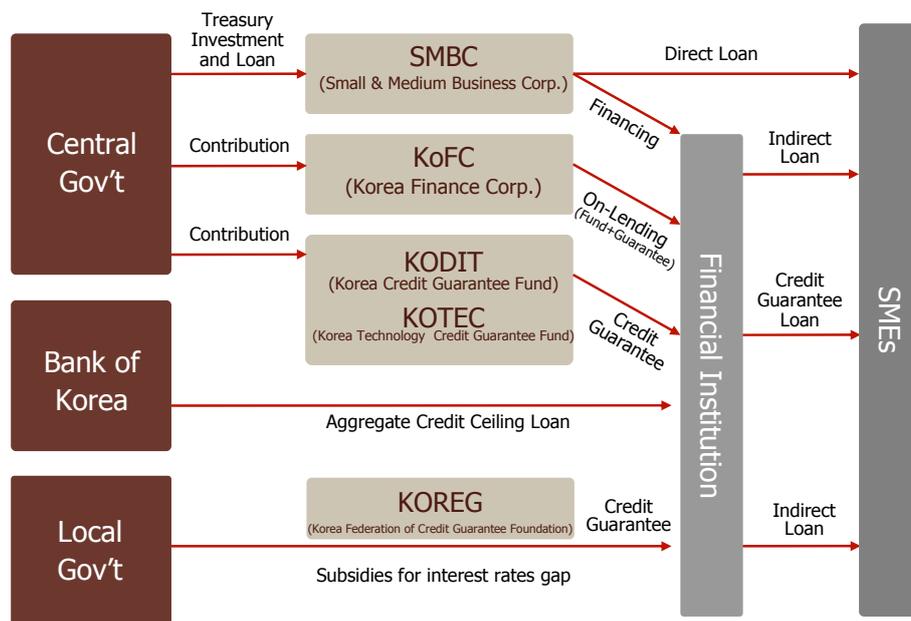
The Aggregate Credit Ceiling Loan System

- Since 1995, BOK has been providing limited amount (KRW 8.5 tr) of short term funds at a lower interest rate (1.25%) than the market for financial institutions with a positive SME loan record.



Korea's Financial Support System for SMEs

SME Policy Institutions

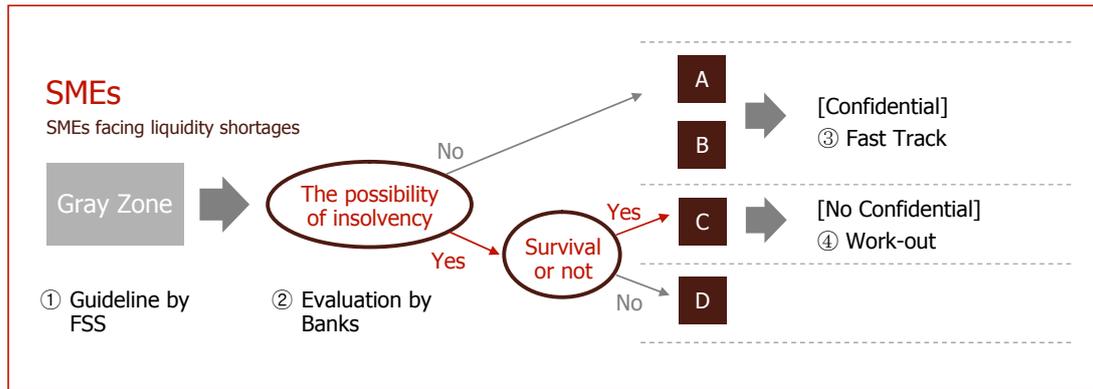


Financial Support System for SMEs

Corporate Restructuring- Fast Track Program

- During recent global financial crisis, SMEs facing liquidity problems were supported via the Fast Track Program (FTP)
 - SMEs facing liquidity problems classified into A, B, C, and D categories.
 - Liquidity support (A & B), Restructuring (C), and bankruptcy (D)

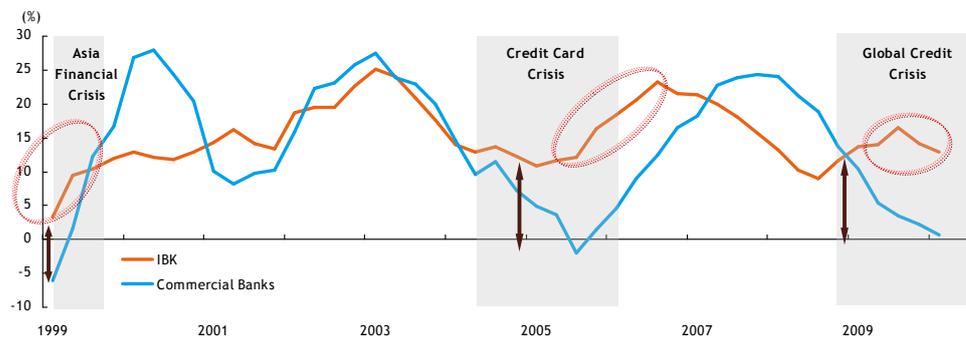
How the Fast Track Program Works



Korea's Experience - SME Loans by IBK

IBK's SME funding pronounced during economic downturns

Loan Balance Change: IBK vs. Commercial Banks (%)



1998 Asian financial crisis:

- IBK was the only bank that increased SME loans (KRW795bn) vs. Commercial banks (-KRW4.3tr).

2004-2005 credit card crisis:

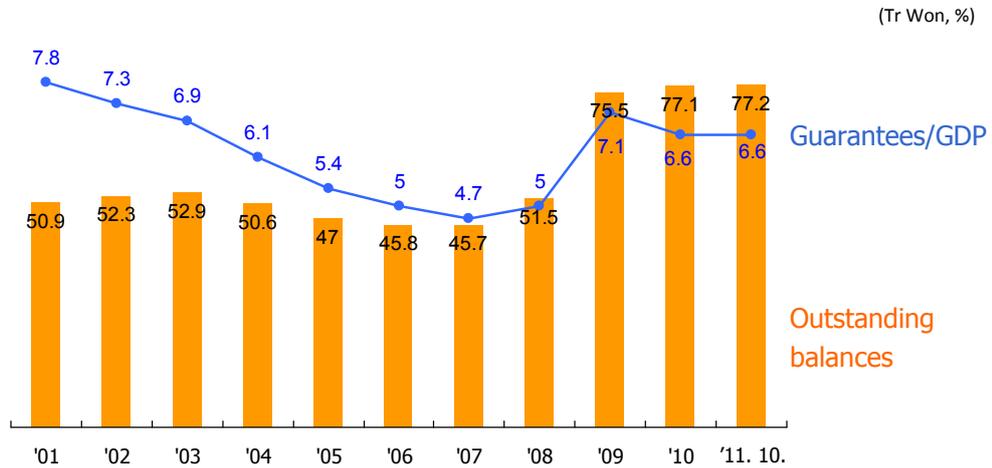
- IBK provided 56.9% and 55.6% of all newly extended SME loans in 2004 and 2005, respectively.

2009 global financial crisis:

- IBK provided 62.7% of all newly extended SME loans.

Korea's Experience - SME Loan Guarantees

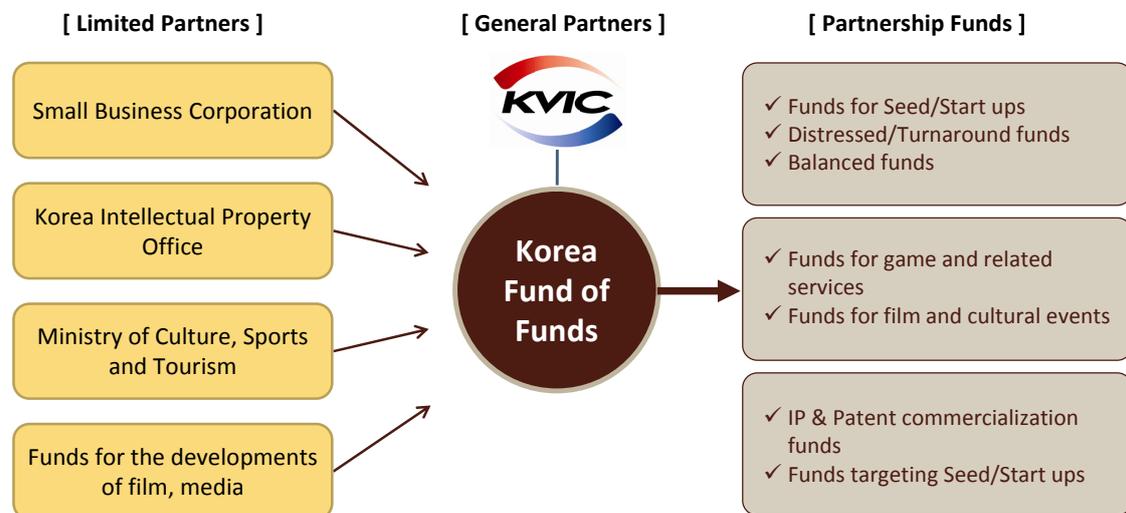
Guarantees of Four (4) Guarantee Institutions
(KODIT, KIBO, KOREG & K-SURE)



* Nov. '11 GDP ratio used GDP of 2010

Korea's Experience

KVIC – Fund Manager of Korea Fund of Funds

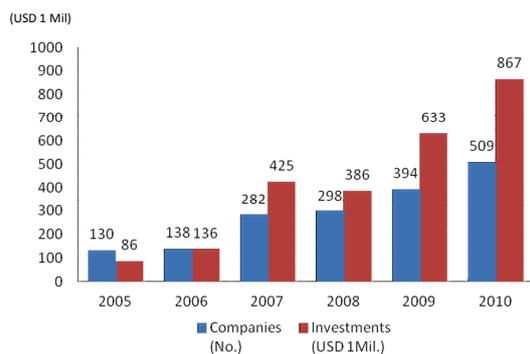


Korea's Experience

Annual Investment of KVIC backed funds

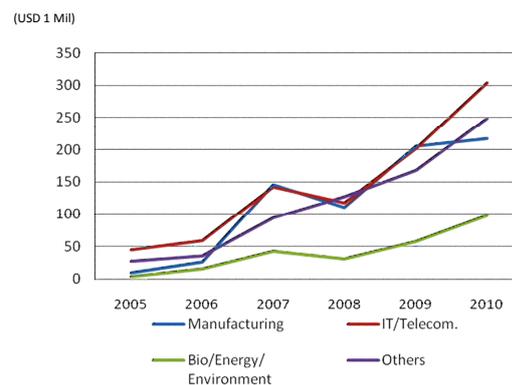
- KVIC invested indirectly in 1,400 portfolio companies in various industries including ICT, Life-science and clean-tech.

[Annual Investments]



* KRW 1,100 = USD 1

[Annual Investments per Sectors]



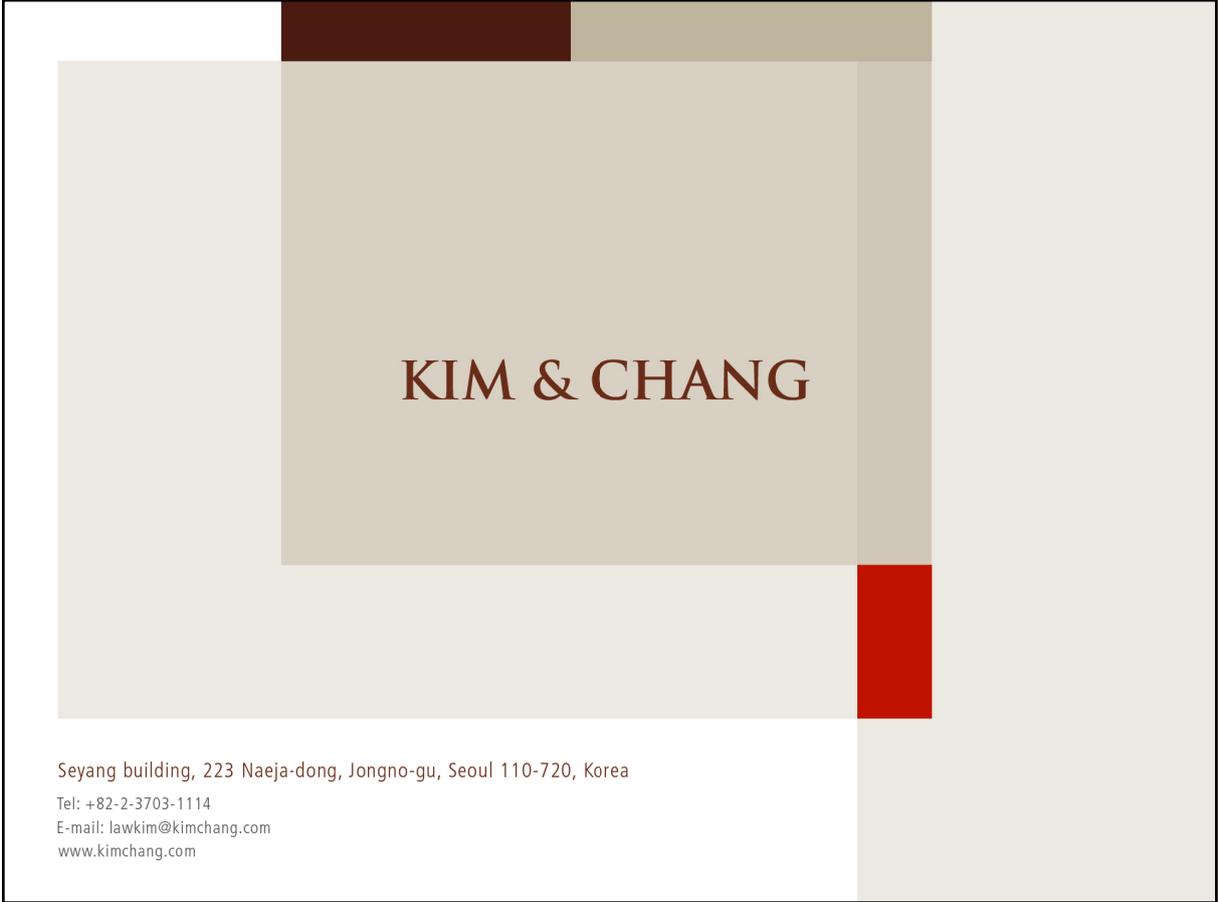
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Lessons from Korean experience

Reduce "Market Failure"

- **Reduce asymmetric information**
 - Supply: enhance expertise of FIs re SMEs
 - Demand: improve infrastructure of SME data/info (CBs, positive and negative information)
- **Establish policy support system where market failure is prominent:**
 - well defined institutional framework
 - transparent and consistent policy financing
 - well established priorities
- **Develop capital market infrastructure for SMEs**
 - Develop stock market targeted for SMEs
 - Flexible listing criteria for promising SMEs
- **Strong corporate restructuring system – separate 'good' from 'bad'**

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The logo for KIM & CHANG is centered in a serif font. The background consists of several overlapping rectangular blocks in shades of beige, tan, and brown. A dark brown horizontal bar is at the top left, and a red vertical bar is on the right side.

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