

Performance of Policy Funds for Korean SMEs and Future Policy Direction

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Small and Medium Business Administration



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Current Status of Policy Fund for SMEs

1. Importance of SMEs

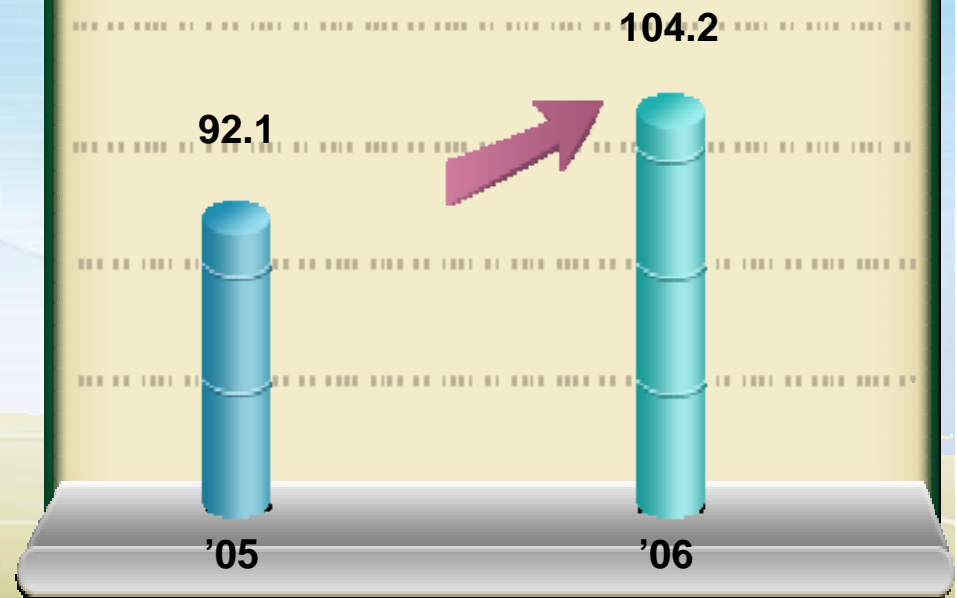
Role of SMEs

● No. of SMEs: 3 Million (99.9%)



SME Export recorded \$100 Billion

(billion)



2. Current Status of Policy Fund for SMEs

Basic Principle

- Respects principles in financial markets
- Covers market failures at private financial institutions
 - * start-up companies, innovative SMEs at early growth stage, companies devastated by natural disasters

Annual Policy Fund Amount for SMEs

- Loans : \$2.6 billion
- Credit guarantee : \$36 billion
- Fund of funds valued at \$1billion

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Results of Policy Fund Innovation under Participatory Government

1. Innovation Progress and Direction

Discussed policy fund innovation

- Discussed various ways to revamp policy fund system, such as formation of task force
- Determined measures to revamp financial assistance system for SMEs on Jun.23, 2005

Strengthened competitiveness of SMEs through complementary measures

- Selected companies of intensive focus, such as start-up companies and companies at early stage of growth
- Created business conversion fund to facilitate restructuring of marginal companies

2. Changes in Policy Fund

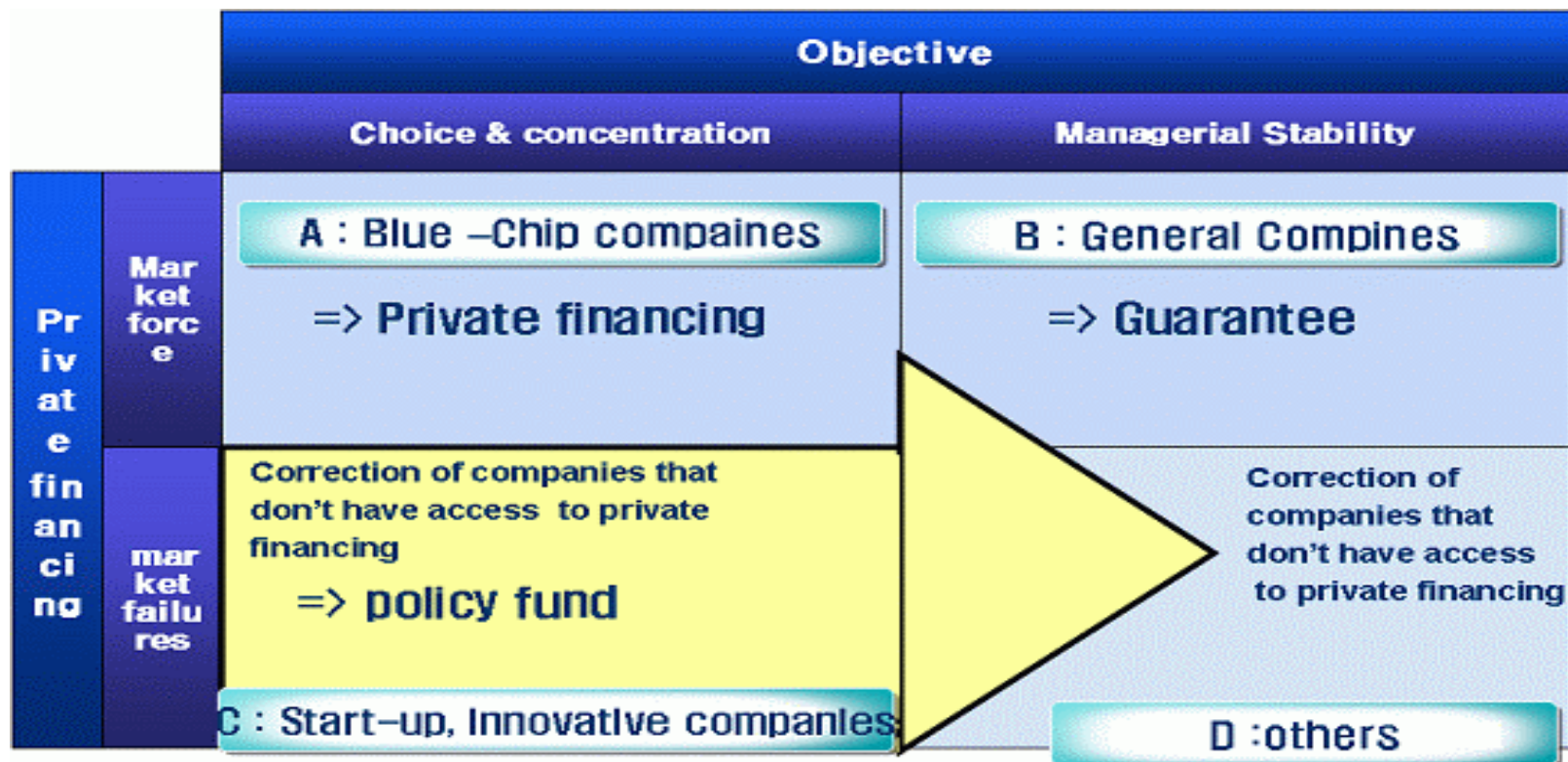
A. Structural Reform of Policy Fund

Increased the use of customers by revamping the system by growth stage

Structural Reform

- 1 Start-up stage : start-up fund, ME fund
- 2 Early stage of growth : technology commercialization fund
- 3 Growth stage of innovative companies : managerial innovation und
- 4 Stage where temporary financial crunches are alleviated : contingency managerial stability fund
- 5 Restructuring stage : restructuring fund

B. Selected companies of intensive focus through the principles of choice and concentration



Start-up companies

- Excluded financial evaluation for companies aged three years or younger and considered future corporate value
- Preferential treatment in evaluation of policy fund

Innovative SMEs

- Extra points in evaluation of policy fund
- Exceptions allowed in the ceiling for facility fund

C. Induced the use of private financing

Blue-chip companies are excluded from benefits of policy fund

- * Companies listed in the Exchange, KOSDAQ, companies that issued corporate bonds with their credit in recent two years, companies with credit rating BBB or higher rating

limited financial assistance for real state, and fund ceiling

- Reduced financial assistance for buying real estate such as lot, building
- Curtailed the fund ceiling for each company from \$5 million in '05 to \$4 million in '07.

D. Diversified financing channels for innovative companies

Expanded investment in innovative SMEs

- Created fund of funds valued at W1trillion by '09
Fund Amount : W385.1B in '06 to 691.6B in '07
- Venture capitalists invested W730B in '06

Linkage of investment with loans

- Financed innovative SMEs by linking investment with loans
- Provided \$0.2 billion by issuing ABS

E. Expanded financial assistance for regional SMEs

Preferential treatment for regional SMEs in policy fund

- Allocated over 60% of total fund to regional SMEs
- Extra points in evaluation of policy fund or increased ceiling
- Investment in fund of funds, and preferential treatment in evaluation of venture capitalists

Expanded guarantee through regional credit guarantee foundations

- Guarantee amount : \$0.9billion in '06 to \$1.1billion in '07

3. Reform of Credit Guarantee

A. Provided market-based credit guarantee

Reduced credit guarantee, which increased after the Asian financial crisis

Reduced credit guarantee for regular customers while increasing it for innovative SMEs

Specialization and professionalism of guarantee organizations

- Credit Guarantee Fund for export-driven companies
- Technology Credit Guarantee Fund for venture companies, and innovative SMEs
- Regional Credit Guarantee Foundation for small businesses and micro-enterprises

B. Made qualitative improvement by increasing guarantee in technology evaluation

Developed and disseminated standard model for technology evaluation

- SMBA developed the model in June, '05
- Used and evaluated the model in evaluation of policy fund
- Induced the use by private financial institutions through Financial Assistance Committee
- Expanded the share of technology evaluation guarantee
22.1% in '05 to 35.2% in '06 to 43% in '07 to 60% in '09.

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Performance of Policy Fund for SMEs

Overview of Performance Analysis

- Mr. Kim's team at Gradual School of Public Administration, Seoul National University
- Analyzed the effect of financial assistance for 20,000 SMEs

Analysis Results

- Profitability increased significantly after receiving the fund.

	Operating income to net sales ratio	Return on equity	Return on asset
Profitability effect	9.96 %	3.38 %	0.39 %

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Future Direction of Policy Fund

Promoting globalization of Korean SME financing

- Pushing for changes in SME policy financing system
- Striving to establish a policy financing system based on market forces in line with globalization in financial markets

Creating infrastructure to encourage Korean SMEs to participate in global financial markets

- Endeavoring to enhance corporate transparency and credibility by strengthening credit management that meets global standards

The background is a vibrant blue digital scene. It features a perspective grid of glowing blue lines that recede into the distance. A bright, glowing light source is positioned at the center of the horizon, creating a lens flare effect with numerous light rays radiating upwards and outwards. The sky is filled with soft, white clouds, and several bright, multi-pointed starburst effects are scattered across the upper portion of the image. The overall aesthetic is clean, modern, and high-tech.

Thank you !