

Financing Innovation-Oriented Business To Promote  
Entrepreneurship

**Comments on**

**Financing Innovation-Oriented SMEs &  
Financing Constraints of SMEs**

April, 2007    Kyung-Mook  
Lim

# Dr. Arzeni's Paper

- This paper provides a well-organized overview regarding the theme of this conference.
  - The paper covers almost all aspects of financing the innovation-oriented SMEs such as types of financing and prerequisites for successful implementation.
  - In addition, it touches the issue of location and talented labor for the growth of innovation-oriented companies.

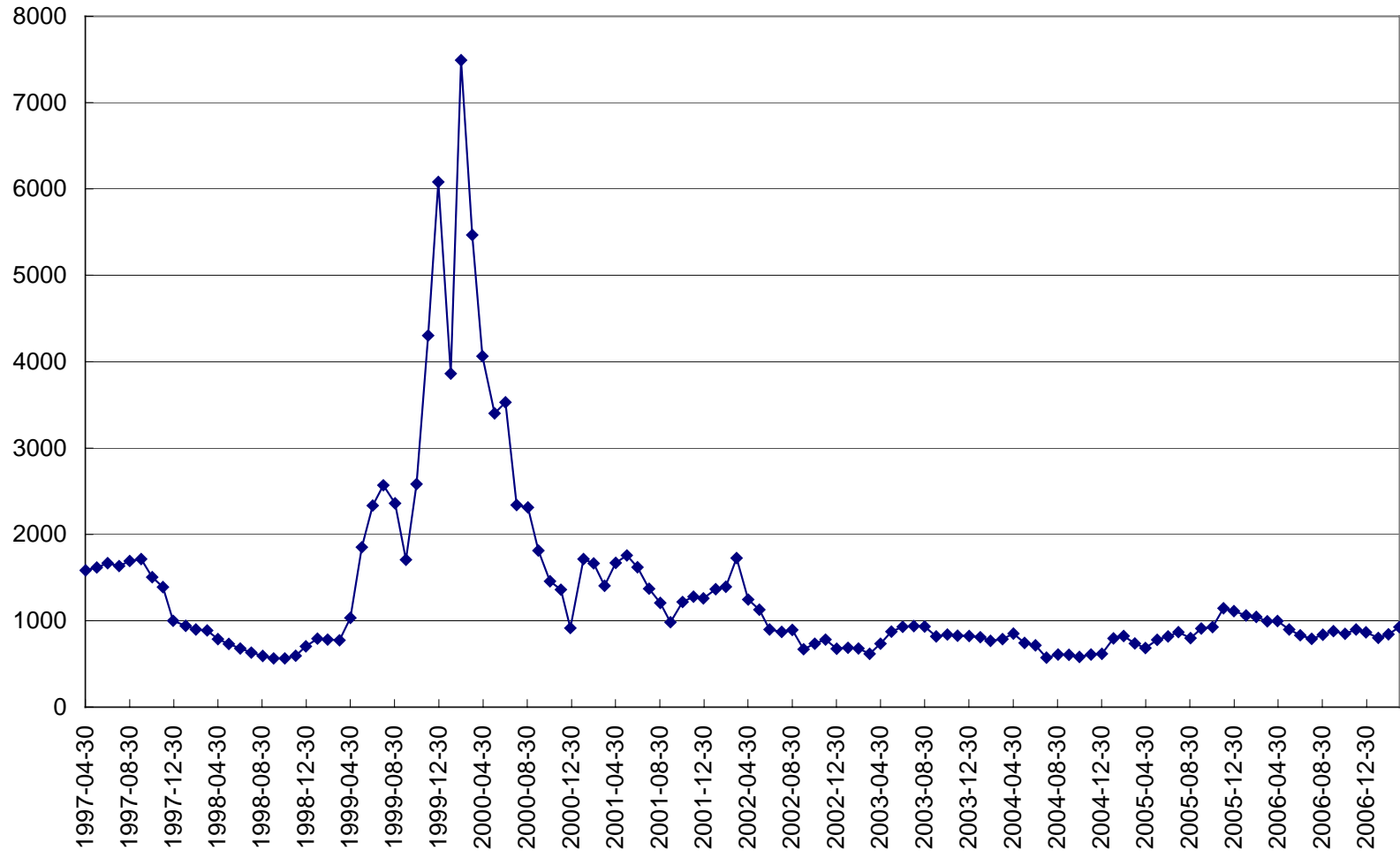
# Dr. Arzeni's Paper

- The paper focuses on the existence of “risk–capital gap”
- To promote economic growth the Korean government has been implementing various policies to alleviate this risk–capital gap.
  - In fact, most of the policies introduced in the paper have been implemented in Korea such as Angel Network, tax incentive for angel investors, building a secondary market (KOSDAQ), providing seed money for start–ups and incubating system....
  - Moreover, the government has been the main fund provider for venture capital.

# Success ?

- The government-led “Venture Boom” has helped to create some star companies.
  - For example, the Korean companies such as NHN has dominated the international leaders like Yahoo, Google in Korean market.
- What about the cost?
  - The operation of government policy should be carefully monitored.

# Venture Bubble Burst



# Questions

- How to guarantee well-functioning public venture capital? Or, can a government become a 'good' venture capital investors?
  - Even the participating securities program (SBIC) in the U.S. is not getting new funds.
- Considering geographical condition of Korea, is it recommendable to build many technology clusters ?
  - Is there any studies on the relationship between size of country and number of clusters?

# Dr. Beck's Paper

- The paper mostly covers more general issues regarding SME financing.
- This paper explains financing constraints of SMEs by providing both intuitive theoretical framework and vast empirical evidences.
- The cautious evaluation on government policies should be noted by policy makers.

# Questions

*“...the policy focus shifting away from size-oriented policies towards policies that level the playing field between firms of different sizes and allow for entry of new enterprises”*

- It is a very sensible statement. But is it achievable given that there are fundamental differences among companies due to their sizes?
  - That is, SMEs suffer more from financing constraints as stated in the paper.

# Questions

- Although this paper touches on other financing tools, it is very much focused on bank financing. Are banks appropriate financial institutions for innovation-oriented SMEs?
  - How to increase accessibility to bank financing of innovation-oriented SMEs?
- Given so called “risk-capital gap”, what can government do to reduce this gap?