

Economic Systemic Capitalism vs. Occupy Wall st. : The Financing of Small and Medium Enterprises

Korea's Growth : SMEs and IBK's Role

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SECTION 1

Korea's Growth and SMEs

1. Korea's Development

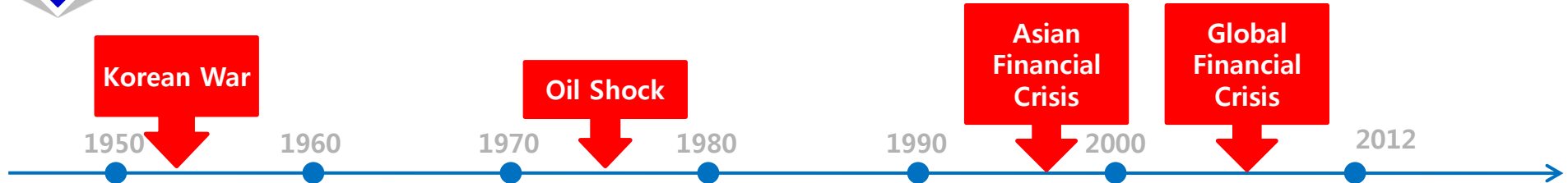
1 *Korea, a small country in Northeast Asia*



*Korea makes up a mere 0.07% of the world,
has a small population of around 50mm.*

1. Korea's Development

2 Economic Advancement



After the War

- Per-capita income: \$65 (one of the world's poorest)
- Left in ruins
- Recipient of development assistance

Dramatic development in 60 years (Miracle of the Han River)

Now

- Per-capita income: \$22,708 (ranked 34th)
- GDP: \$1,156bn (ranked 15th)
- Int'l trade: \$1,067bn (ranked 8th)
- Ship construction: 5.4mm (ranked 1st)
- Vehicle production: 4.1mm (ranked 4th)

* as of the end of 2012

2. Importance of SMEs

1 SMEs are the pillar of the national economy

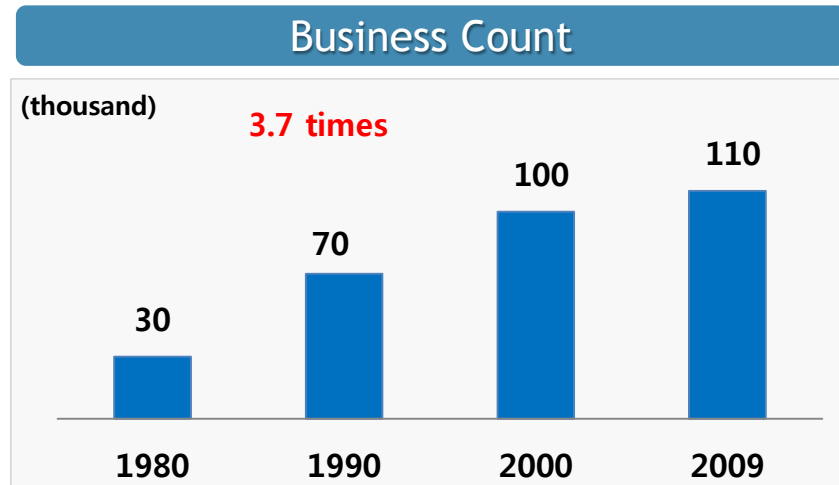
	Manufacturing SMEs*	All SMEs
No. of Companies	99.8%	99.9%
No. of Employees	79.7%	86.9%
Gross Industrial Output	46.6%	By Economic Value Added 47.3%
Revenue	18.3%	By Export Contribution 32.3%

Note: Statistics Korea (KOSTAT) as of 2011 year-end

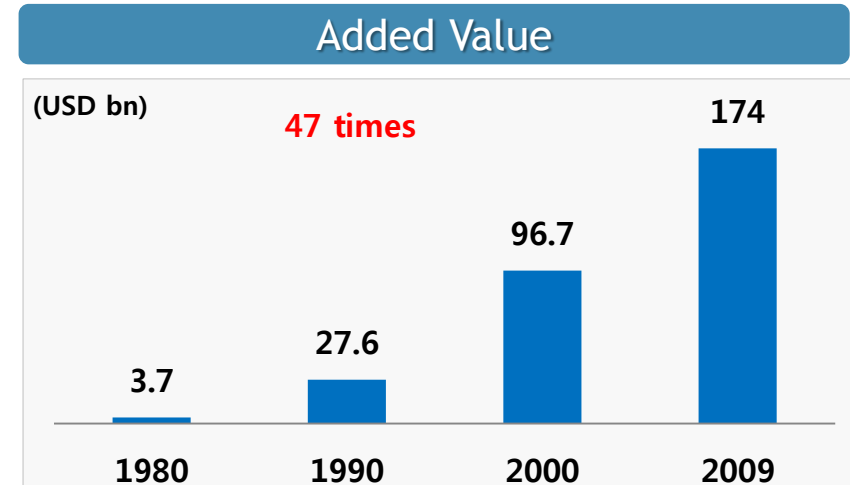
* Based on SME's with 5 or more employees

2. Importance of SMEs

2 *SMEs' Advancement*



* SME manufacturers with 5 or more employees



* SME manufacturers with 5 or more employees

3 *Robust growth of SMEs, essential for advanced economy*

Large Corporations : Leader of the economy

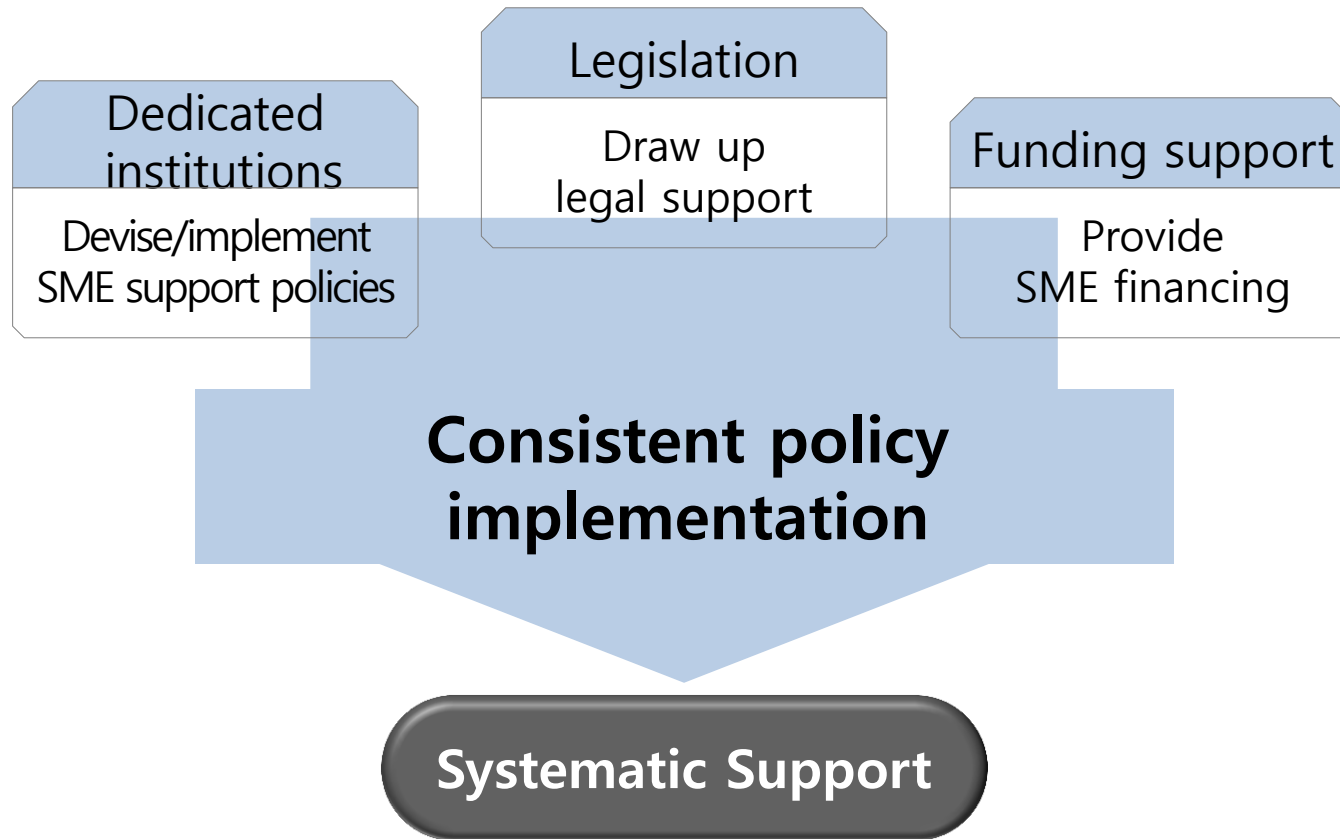
SMEs : Fundamental strength of the economy

SECTION 2

SME Financing Policy of Korea

1. SME Support Framework

The Gov't has set up legal, institutional and funding support mechanism for consistent implementation of SME support policies.



2. SMEs' Funding Support Policies

Mandatory SME loan ratio

- Encourage banks to allocate a certain portion of their lending to SMEs
 - **IBK : 70% + of the outstanding balance**
- Commercial banks
 - w/ nation-wide network: 45% + of incremental growth
 - w/ limited local network: 60% + of incremental growth

State-funded lending

- Provide cheap, long-tenure credit to focused industries
 - Mostly for capital expenditure purposes
- With funds from the Gov't (or state agencies)
 - Banks borrow funds from the government and re-lend it to industries (on-lending)

Guarantees

- Enhance SMEs' creditworthiness to facilitate SME lending
- Guarantee agencies
 - KODIT
 - KOTEC
 - K-sure
- Funding source
 - Contributions from the Gov't and banks

SECTION 3

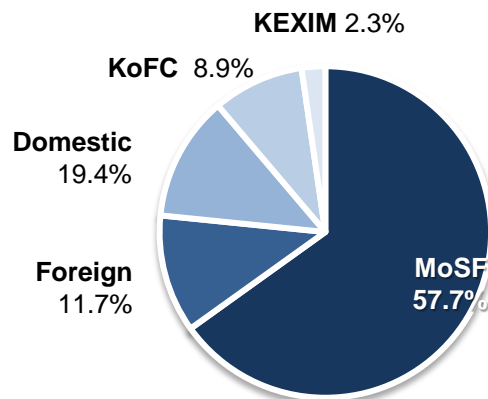
IBK's Role in SME Financing of Korea

1. IBK Overview

Profile

- Establishment: August 1, 1961
- Employees: 10,099
- Branches: 649
- Total asset: \$152bn (4th in Korea, 116th globally)
- Net income: \$1.1bn
- BIS CAR: 12.54%
- Credit rating (same as sovereign rating)
 - Moody's : A1,
 - S&P : A, Fitch : A+

Ownership



< Ownership Structure >	
Government	57.7%
KoFC*	8.9%
KEXIM	68.9% 2.3%
Market traded	23.7%

* KoFC : Korea Finance Corporation

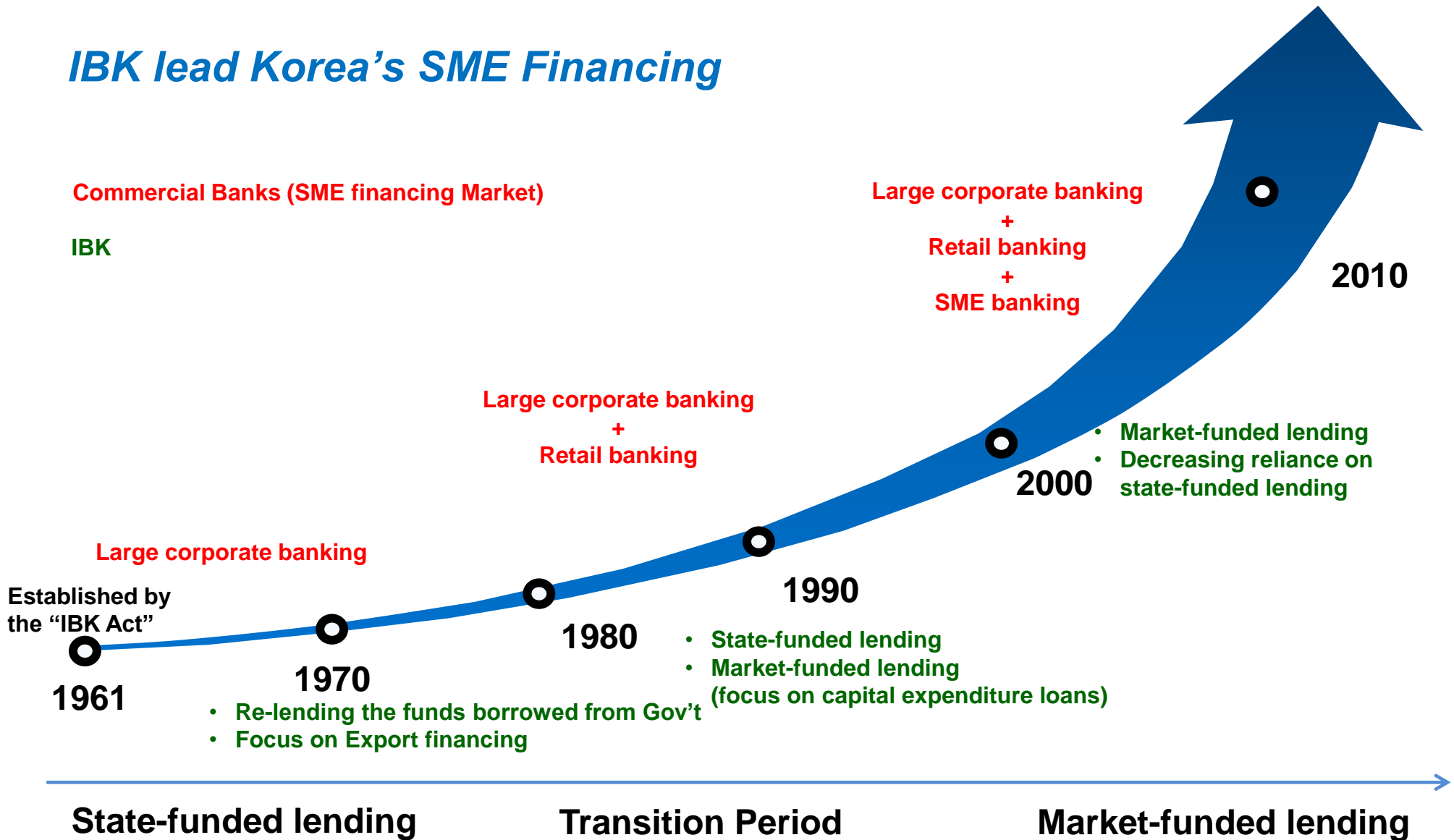
* Note : 2013.12

Key Article of IBK Act

- ▶ **Article 1 (Purpose of Establishment)**
 - to promote the independent economic activities of SMEs...
- ▶ **Article 26 (Appointment and Dismissal of Officers)**
 - CEOappointed/ dismissed by the President of the Republic of Korea
- ▶ **Article 36-2 (Issuance of SMIF Bonds)**
 - The issuance ceiling of the SMIF bonds to be **twenty times** the Bank's paid-in capital plus its reserves
- ▶ **Article 43 (Coverage of Losses)**
 - The Gov't to provide funds to cover the deficit..

2. SME Financing History : IBK Vs. Commercial banks

IBK lead Korea's SME Financing

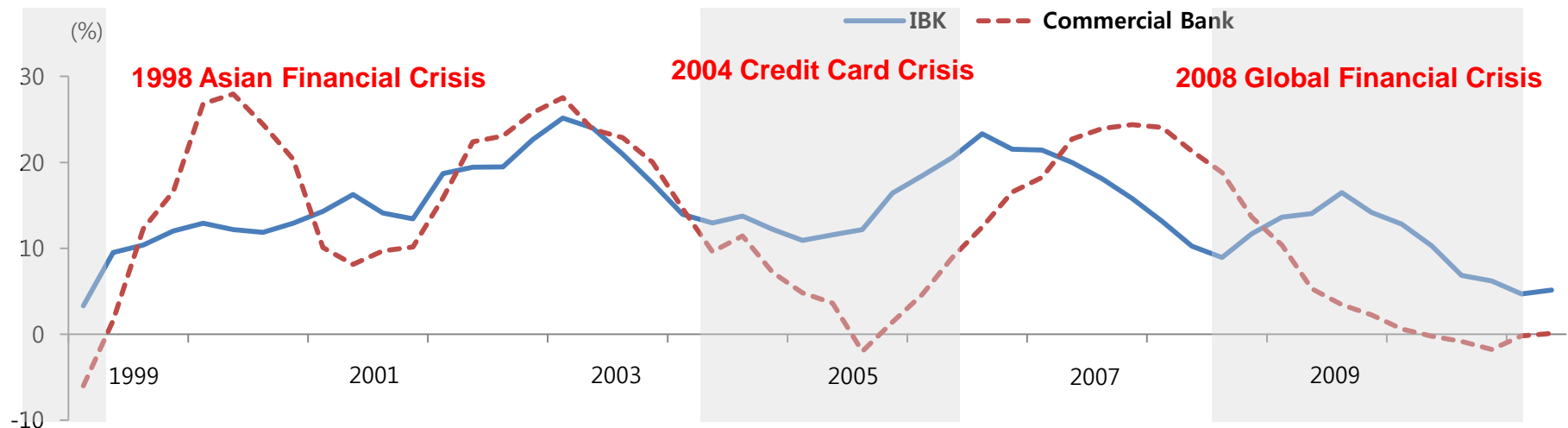


3. Distinguishing Features : IBK & Commercial Banks



Philosophy : Providing Umbrella, Rain or Shine !

Every trouble times, plays a pivotal role in the national economy



3. Distinguishing Features : IBK & Commercial Banks



Mind Set

1. Think small first !

Focus on smaller enterprises – those normally under banked due to high risk

2. Mediator of the National Development !

In Providing loans, consider first of the industry's contribution to the national economy

3. Find the potential Enterprises!

Expanding unsecured lending with less collateral

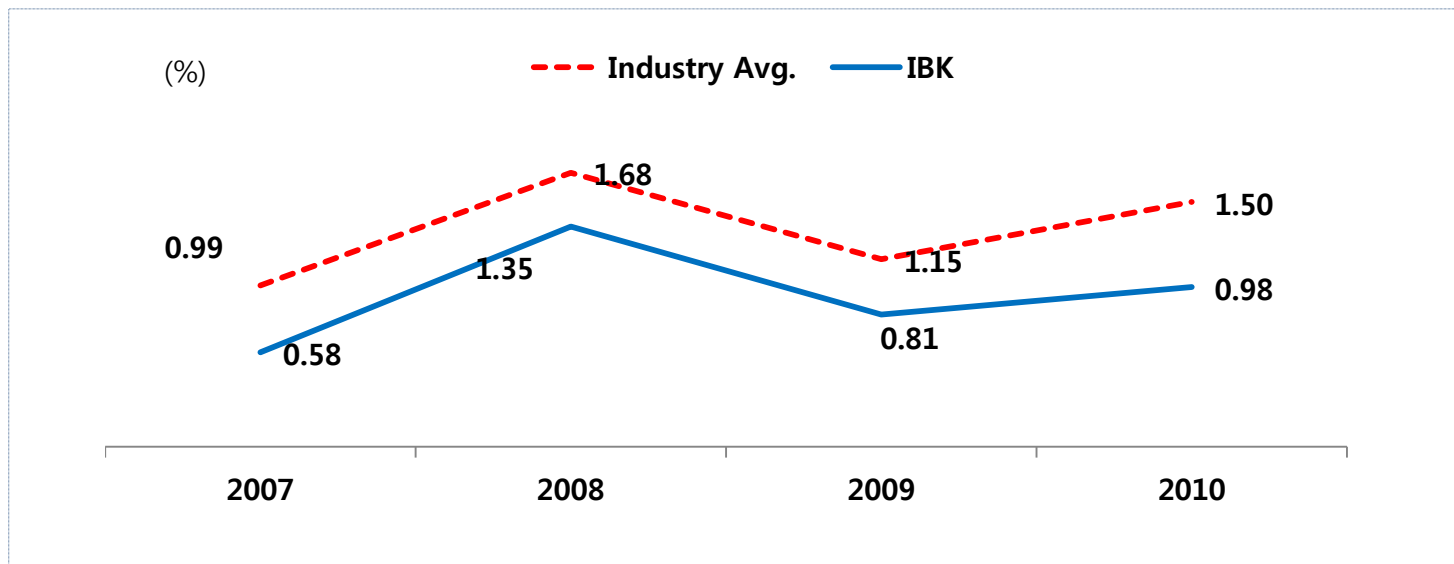
3. Distinguishing Features : IBK & Commercial Banks



Methodology : System to tacit knowledge!

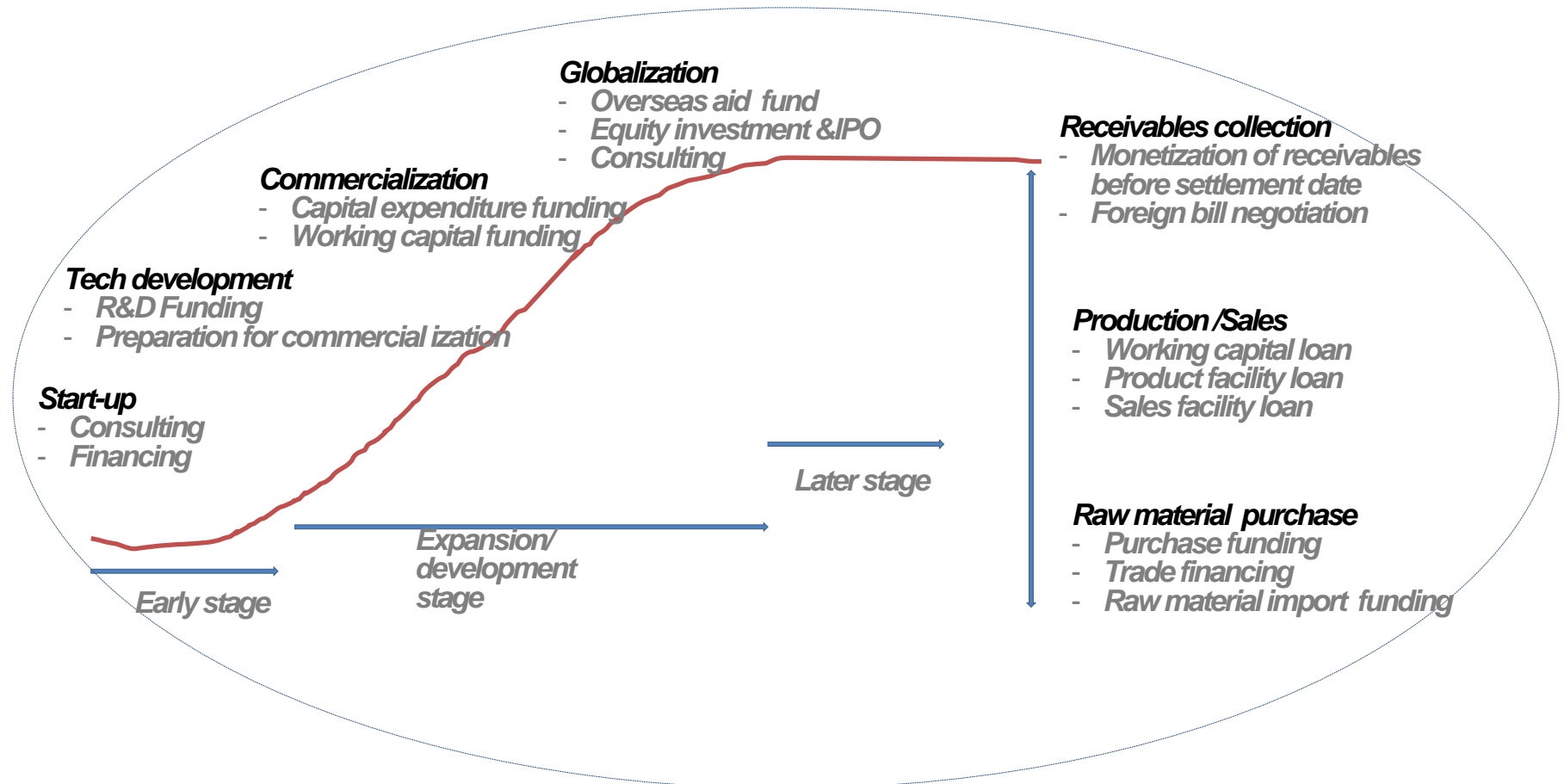
*Distinctive credit rating model with high accuracy,
built on IBK's 50-year-long know-how and extensive database*

SME loan delinquency



4. SME Financing Schemes

Dragnet-type(Matrix) : Including from fulfilling the needs facing by the each level of growth cycle of the company to diverse supply value chains.



Case Study : HJC Helmets Corporation



Early stage with IBK : Financing and Non-financing services



Establishment Of the Company

Established US subsidiary

No.1 Helmet Brand in North America

Established EU subsidiary in France

IBK
'04 IBK's the First Entrepreneurship Hall of Fame

Financial Highlights

- Total Assets : KRW 98,708m
- Total Equity : KRW 58,715m
- Sales Revenue : KRW 83,757m
- Operating Profit : KRW 5,326m

Market Share

- No.1 of the motorcycle helmet markets in the world since 2001
- No.1 of the motorcycle helmet markets in North America since 1992

1971

1987

1992

2001

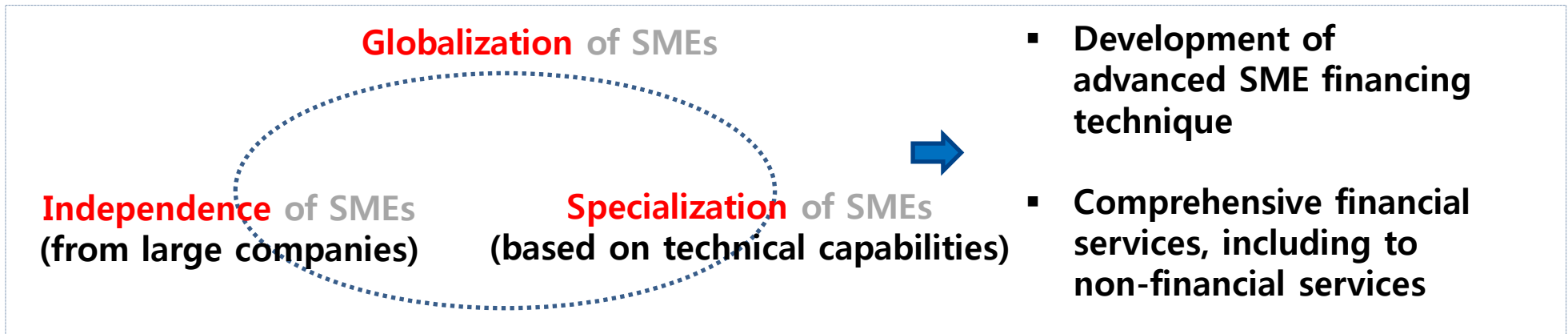
2004

Source: IBK Success Story Magazine

* As of FY2012

5. Future Tasks

1 *Not just financial support, But focusing to become an industrial leader*



2 *Facilitating the restructuring of SMEs*

Weeding out of marginal SMEs lacking competitiveness

- Encourage gradual liquidation of marginal SMEs
- On-going restructuring

SECTION 4

Propositions : Latin America and Caribbean Countries(LAC)

1. Implications for SME Financing

1 *SME Financing is practically different from large company financing, and therefore need a certain level of Gov't supports.*

- *SMEs are in need of capital, but it's difficult to find funding means for SME financing.*
- *As it is small-sum lending to a large number of companies, it's difficult to achieve economies of scale.*
- *SMEs carry higher risk as they are vulnerable to external shocks, mainly due to information asymmetry, small pool of reserved capital and single business portfolio.*

2 *SME financing, which along with the trend of SMEs policy of Gov't.*

1. Implications for SME Financing

3 *SME financing, starting from understanding the characteristics of SMEs.*

- *SMEs exist in various industries and mostly run by a single person.*
- *Many SMEs produce and supply parts/components for large corporations.*
- *SMEs are vulnerable to external shocks due to small size and small pool of reserved capital .*

4 *SME financing, which along with the development level of each country competitiveness(SMEs' competitiveness).*

5 *SME financing, has to be a assistance in the field of contact-type and be approached with a medium to long-term goal.*

2. Task for efficient SME financing

1 *For the Government*

**Revision of laws
& institutions**

**Set-up of
dedicated bank**

**Support from
the Government
& central bank**

Guarantee system

2 *For the Bank*

**Maintenance
cost saving**

**Cost of Risk
saving**

**Program
development
for SMEs**

**Funding
for SME financing**

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