



***Prosperity
with competitive & innovative SMEs***

Small & Medium Business Administration
The Republic of Korea



Greetings

Since the establishment in 1996, the Small and Medium Business Administration (SMBA) has been actively providing support for SMEs with creativity and entrepreneurship to ensure their stable growth. For the past years, SMEs in Korea have played a decisive role in pulling the nation out of financial crisis and resuscitating its sluggish economy. I believe that SMBA, having shared the ups and downs of SMEs for the past years, is partly attributed to the achievement of SMEs.

The rapid changes in business environment marked by transition toward knowledge-based economy and informatisation require SMEs and SMBA to abandon old practices, and confront new challenges with constant efforts for innovation.

SMBA has been helping SMEs to boost innovation capabilities and entrepreneurship for them to steadily grow in the new economic environment. At the same time, SMBA is endeavoring to become a more trusted administrative agency through constant efforts for reorganization and innovation.

SMBA will not be complacent on the past achievement. SMBA will continue its efforts to provide high-value policy services to create the right environment in which SMEs can flourish with creativity and entrepreneurship.

SMBA shall be wherever needed by SMEs.



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SMEs,
Growth Engine of Korean Economy

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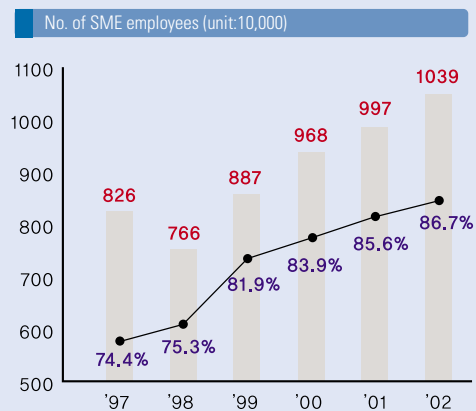
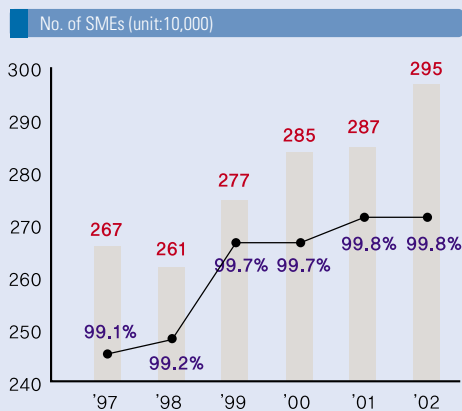
Status and Role of SMEs
Environment changes and New Challenges facing SMEs

Status and Role of SMEs >>

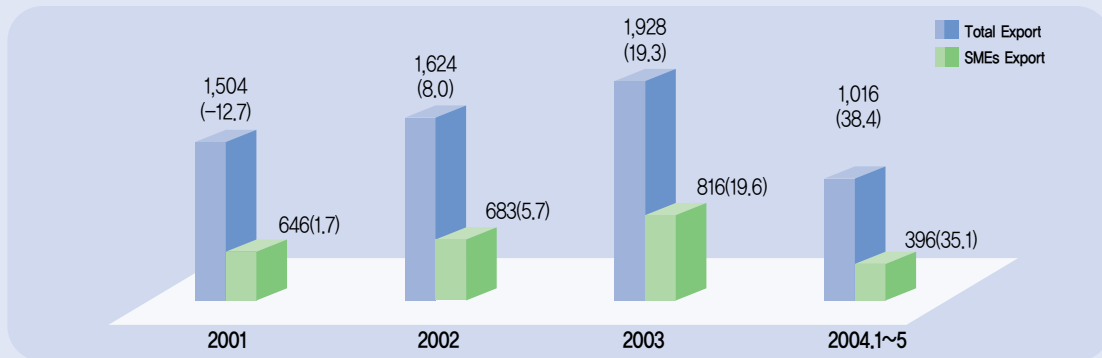


Small in size but large in number with full of vitality

- In general, SME is defined to be an enterprise with less than 300 employees. As of 2002, the number of SMEs in Korea equals about 2.95 million comprising 900,000 medium enterprises (with 50~300 employees), 240,000 small enterprises (with 10~50 employees) and 2.62 million micro enterprises (with less than 10 employees).
- As the backbone of the Korean economy, SMEs represent 99.8% of entire enterprises (2.95 million SMEs), and 86.7% of total employment (13.09 million employees) in Korea.



- Exports by SMEs have continued to grow, making up for sluggish domestic consumption and making Korea more known around the world.



Key Solution to Resolving unemployment

- During the period from 1997 till 2002, the number of those employed by large enterprises dropped by 1.25 million while that of SMEs increased by 2.13 million.
- As the source of innovation and new ideas, SMEs create a large number of jobs, helping ease unemployment problems.

No. of SME employees - annual trend						
	1997	1998	1999	2000	2001	2002
Total employee(A)	1,110	1,018	1,083	1,153	1,165	1,198
No. of SME employees(B)	826	766	887	968	997	1,039
Ratio(B/A)	74.4	75.3	81.9	83.9	85.6	86.7

(Unit : 10,000, %)

Creativity and Risk-taking Spirit Alive

- According to the GEM(Global Entrepreneurship Monitor) report - prepared jointly by the US Babson College and London Business School to measure start-up activities of each nation - Korea ranks 6th of 41 nations from 2000 till 2003, implying Korea's high enthusiasm for start-ups. Under this business climate, enthusiastic young people can realize their dreams by starting up their own enterprises.



Environment Changes and New Challenges Facing SMEs >>



Difficulties facing SMEs due to Changes in Economic Environment

- Up until now, SMEs have steadily grown as sub-contractors of large enterprises based on relatively low wages.
- However, such factors that enabled SMEs' growth in the past are increasingly disappearing with rapid changes in the global economic environment: large enterprises' global outsourcing strategy; emergence of China and other nations with higher cost competitiveness; shortening technology life cycle; fiercer competition brought by market liberalization.
- Such changes in economic environment are weakening growth potential and profitability of SMEs. Study shows that the facility investment of SMEs remains low.

SME Growth factors	Changes in Economic Environment and Future Tasks	
Price competitiveness such as low wages	High-cost Economic Structure/Emergence of Chinese Economy	Weakened Price Competitiveness
Mutually-reinforcing relationship with Large enterprises	Shortening Technology Life Cycle/Global Outsourcing practice	Difficulties with technology accumulation
Market Protection and other Institutional Support by government	Market liberalization, FTA /Competition-oriented institutions and policies	Fiercer competition
Rapid-growth phase	Stable-growth phase	Transfer of manufacturing base into foreign nations

New Challenges and Opportunities

- Although the present difficulties confronting SMEs are not easy to overcome. But in a sense, they provide SMEs with opportunities for leap-forward in the global marketplace.
- The Korean government places its policy priority on SMEs. Also, it makes the best efforts to create the right environment for SMEs, in which anyone with creative ideas and strenuous efforts can start up a new enterprise
- As many people think of SMEs as a means of self-achievement, SMBA will do its best to develop entrepreneurship and create the best business environment for SMEs.





Major SME Policies



- Facilitating Start-up and Enhancing Entrepreneurship
- Providing Effective Financial Service
- Ensuring Stable Supply of Human Resources for SMEs
- Enhancing the Market Access of SMEs
- Building Technological Innovation Capacity of SMEs
- Promoting Venture Businesses





>> Vision of SMEs



Major SME Policies

- SMBA set the future vision and policy goal as mentioned above, with the strong belief that SMEs full of vitality and creativity will drive Korean economy as the strong growth engine and job creator.
- To meet the goal, differentiated policy support according to SMEs types and growth phases are being provided for SMEs in all areas ranging from start-up, technology, workforce, funding, and marketing.
- The types of SMEs are classified into “innovative & leading SMEs”, “Self-reliable SMEs”, and “micro enterprises” according to their qualities.
 - “Innovative & leading” SMEs are defined to be SMEs equipped with independent R&D (new product development and process innovation) capabilities and business management abilities. They are estimated to represent about 2% of a total of 100,000 small and medium manufacturing enterprises with 5 or more employees. The SMBA will systematically support this innovative SME group with activities of start-up, technology development and marketing so that it will grow to be the world-class innovative SME group meeting global standards.
 - “Self-reliable” SME refers to SMEs in general, specifically, SM(Small and Medium) manufacturing enterprises with 10-or-more employees, and SM service enterprises with 5-or-more employees. The number of “Self-reliable” SMEs reaches 300,000. The administration, supports SMEs in general for their qualitative growth, and helps marginal enterprises rapidly convert to a new high-valued business.
 - “micro enterprises” refers to small business runners engaged in handicraft manufacturing, trading, catering, and other services. In terms of size, the number of employees does not exceed 10 for manufacturing business, and 5 for service business. The number of SMEs in this category reaches about 2.6 million. To help the micro enterprises to create more jobs and contribute to the local economic recovery across the nation, SMBA will support them with activities of start-up and management innovation.



- The SMEs can also be classified into start-up, growing, and reorganization SMEs by business development phases. Based on the classification, SMBA is implementing differentiated, and customized policies for each group.
 - First, “start-up” refers to the phase of business start-up and new product development and roll-out. The SMEs in this phase have difficulties with financing, in general, since they have no proven sales records. Given this, the administration will improve start-up financing and other relevant procedures so that any entrepreneur equipped with good ideas and technology can start up a business with little difficulties with financing. This efforts are expected to improve overall start-up success rate of SMEs.
 - Growing SMEs are at the stage of solidifying business foundation, and growing both quantitatively and qualitatively through fierce competition and cooperation among rival enterprises. The administration will help the SME group in this category to increase transparency of management practices, to promote direct corporate financing from the market. The administration will continue to support them concerning market-buildup and workforce management.
 - SMEs in the reorganization phase, are subject to reorganization in forms of exit from the market, M&A, and business conversion. The administration will lay the institutional foundation for constant restructuring system under which the credit status of SMEs is constantly evaluated for prompt restructuring.
- Under the institutional framework as above, the SMBA operates various SME-support programs as follows to help the SMEs to firmly establish themselves as the growth engine of the national economy, and main job creator, based on the strengthened capabilities and global competitiveness.



Facilitating Start-up and Enhancing Entrepreneurship >>



- Start-up is an important economic activity that can generate dynamism of the national economy as a source of new ideas and innovation.
- Various programs for Promoting Business Start-up
 - To foster young entrepreneurs and create the entrepreneurial business climate, the SMBA has been running various programs such as start-up course, start-up clubs, Bizcool program for young people, and graduate school for business start-up.
 - The administration is promoting the business environment favorable for start-up by removing or streamlining regulations and procedures that used to hinder start-up activities and providing the start-up agency services - conducting start-up activities on behalf of the company.
 - The SMBA offers the necessary land for start-ups by supporting set-up of business incubators belonging to universities and institutes across the nation, and provides funds for business founders through start-up funds.

Details

- Business Incubators : BIs are operated by universities and institutes capable of supporting to-be entrepreneurs or new-SME founders. This program is designed to promote the survival and growth of newly established venture companies. Currently, about 300 business incubators across the nation host about 4,000 SMEs. The SMEs are provided land, experts' consulting service, marketing education and other supports.
- Start-up course : Start-up course is a program targeting would-be entrepreneurs or new SME starters, designed to improve their management capabilities and raise start-up success rate. Local universities and specialized institutions offers the course about 100 times a year.
- Support for entrepreneur clubs : The SMBA provides financial supports for entrepreneur clubs of universities to inspire the students with entrepreneurship. This program is designed to train college students as entrepreneurs with creativity and frontier spirit. Currently, 520 entrepreneur clubs in 220 universities have about 12,000 member students.
- Entrepreneur Graduate School : In order to foster start-up specialists, 5 universities including Hoseo University and Jungang University have been running the entrepreneur graduate school program on a trial basis since 2003.
- BizCool for teenagers : To inspire teenagers with entrepreneurship and business mentality, 80 middle and high schools have implemented BizCool program on a trial basis. About 20,000 students attended the program and took a variety of case-oriented courses including self-management, business start-up, Business administration, and finance.
- Start-up procedure simplification : In the past, SMEs had to obtain approvals for 53 items to construct factories. However, such complicated approval processes have been simplified into package approval system of [start-up business program approval]. The simplified factory-building procedure is expected to facilitate start-up of venture enterprises.
- SME Venture Start-up Funding : This is a program designed to promote start-up activities and create jobs through funding for venture SMEs with superior and feasible technology. As part of the program, the would-be entrepreneurs or less-than-3-years-old SMEs can be extended a low interest loan of up to 1 billion won a year.



Providing Effective Financial Service >>



- Those intending to start up an enterprise, or expand/restructure an existing business, will face the most common difficulties with financing. This is mainly because banks require collaterals before agreeing to extend a loan to SMEs, and their technology and corporate value cannot be correctly assessed for underwriting.
 - The SMBA provides direct and indirect financing support for SMEs to ensure that creative and innovative SMEs will not fail because of difficulties with financing.
 - As indirect financing services, the administration provides security assurance service for SMEs ineligible for bank loans due to lack of collateral and technology. This service allows them to borrow needed funds under a credit guarantee scheme run by SMBA's partners, KCGF(Korea Credit Guarantee Fund), KOTEC(Korea Technology Credit Guarantee Fund), and local KCGF offices.
- Also, small business owners, enterprises in the start-up phase, technology-oriented SMEs and SMEs awaiting reorganization get policy funds through SBC (Small Business Corp.)

- In efforts to support SMEs with direct financing from the market, the SMBA plans to utilize venture capital and Kosdaq market.
 - SMEs which are promising but lack collaterals get investment funds from venture investment companies and venture investment partnerships.
 - KOSDAQ market and the third market are in operation to enable direct financing of small and medium venture companies from the market.

Details

- Credit guarantee services : In an effort to enable SMEs which lack collaterals to access needed funds, credit guarantee organizations provide guarantee services for them by issuing credit guarantee letters. Currently, KCGF(Korea Credit Guarantee Fund), KOTEC(Korea Technology Credit Guarantee Fund), and local KCGF offices are in charge of the guarantee services, and the government financially supports such organizations.
- Technology Appraisal Securitization Program : Through this program, the SMBA helps SMEs get loans through the securitization of the appraised value of their new technology. An institute that specializes in assessing technology estimates the value, feasibility and marketability of a new technology. A financial institution may then offer a loan based on the assessment. This program is significant in that SMEs with superior technologies can take loans from financial institutions even without other backing collaterals.
- Policy Fund for SMEs : The SMEs can borrow needed funds at low interest rate for the purpose of start-up, facility investment, automation, and commercialization of new technologies. The total policy funds operated in 2004, amounted to 3 trillion won.
- Account Receivable Insurance Program : The program is designed to protect SMEs against management difficulties stemming from the failure to collect payments. This program of the insurance on account receivables (sales on credit + notes receivable) was initiated in 2004, and is expected to ensure management stability of SMEs by preventing back-to-back bankruptcies of them.
- Venture Investment Funds : To ensure stable supply of resources for innovative SMEs, the SMBA plans to mobilize 400 billion won of venture investment funds through set-up of 108 venture capital firms, and 431 venture capital cooperatives. The administration focuses on expanding the basic infrastructure for investment in venture businesses, and improving investment climate. To build a foundation for stable growth of venture capital, the SMBA is initiating programs including the formation of the "fund of funds" (80billion won) for financing venture funds, and the shaping of an active secondary market for venture capital (800billion won).

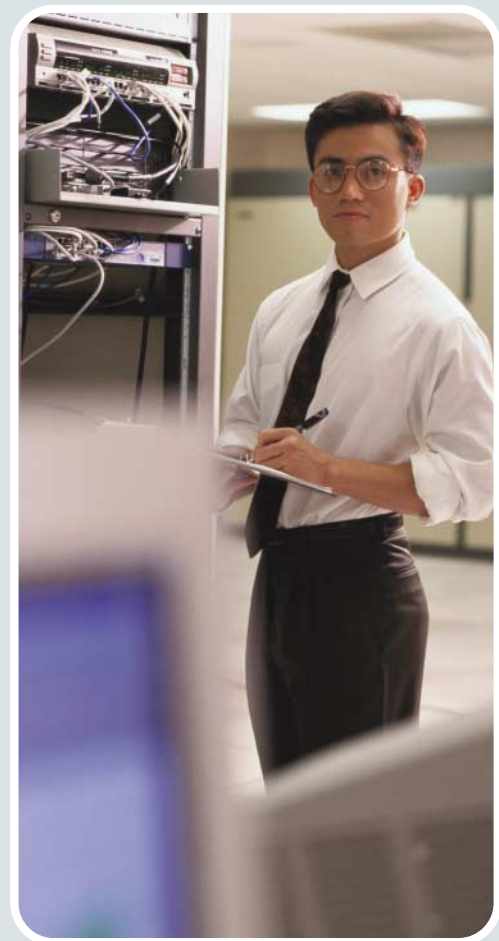
Ensuring Stable Supply of Human Resources for SMEs >>



- Importance of Human Resources

- The 21 century is the era of constant changes driven by market liberalization and IT advancement. The key to corporate competitiveness in this age of change is competent human resources capable of flexibly and promptly responding to the constantly-changing environment.

- SMEs facing labor shortages despite the increase in the unemployed young
 - Although the number of the jobless young across the nation reaches 400,000, SMEs are in desperate need of 140,000 additional workforce. As this is attributable to the combined factors of SMEs' poor working conditions and welfare benefits as well as young people's preference for larger enterprises, it must require much efforts and time to fundamentally resolve the problem.
- SMBA is well aware that "Developing & Securing of Competent Human Resources" is the key solution to enhancing competitiveness of SMEs. In this regard, the administration is making policy efforts to raise capabilities of both SME employees and managers, and at the same time, create the social and business environment where SMEs can employ competent human resources.
 - To lure an increasing number of young people into SMEs, the administration has been implementing "On-site Work Conditions Improvement Program" and provides tax benefits and other special treatment for SME employees.
 - In order to change the way that young people perceive SMEs, and keep friendly ties between college students and SMEs, the SMBA initiated a 'Collegian SMEs experiencing program' and a 'Youth employment package program'.
 - The 'SME Training Center' implements various programs to educate the SME managers and employees on new management method, and on-site work skills.
 - The foreign workforce's Industrial training system and the industrial technician certified system have been put in place to ensure the availability of manpower at production sites and qualified technicians at middle class, respectively.



Details

- [On-site Work Conditions Improvement Program] : A study reveals that 37% of the manufacturing SMEs retain challenging factors such as heat and dust and the ratio of the employees working under the poor working conditions exceeds 20% in 22 industries. This program aims to improve working conditions of such SMEs through development and provision of needed equipment that can alleviate the adverse conditions. As part of this program, the administration has been in support of about 100 relevant projects(working condition enhancement) in 67 industries where more than 10% of employees suffer from poor working conditions.

Improved work conditions through [On-site Work Conditions Improvement Program]

Youngnam University and three SMEs of Mugil Dyenet and Changshin Fabric Co. and GSTextile Co. have formed a consortium and successfully developed air-purifying equipment. This resulted in drastically improved working environment and reduced defect rates.

For example, total dust level diminished to less than 20 ($\mu\text{g}/\text{m}^3$) from 25,000($\mu\text{g}/\text{m}^3$).
(allowance: 300 $\mu\text{g}/\text{m}^3$)

- Preferential Treatment for SME Employees : The SMBA has been implementing various programs to lure an increasing number of employees into SMEs. The scope of tax deduction has expanded, concerning the costs of R&D, human resource development, and welfare facilities investment of SMEs. Also, the employees who work for SMEs for more than 10 years are preferentially granted the right to purchase public condominiums.

- Collegian SMEs Experiencing Program : This program was initiated in 2001, to improve the image of SMEs among college students by giving college students opportunities to temporarily work for SMEs. In 2003, about 67,000 students from 200 universities were given chances to work for 7,700 SMEs. The program helped to change the way college students perceive SMEs.

- Youth Employment Package Program : The program intends to lure young people into SMEs by providing the young jobless with on-site training at working level for five months.
- SME Training Center : The SME Training Center, as a public education institute, provides low-cost training services for the employees of SMEs which lack in-house training facilities. Designed to improve on-site work skills of employees, the center runs various training programs including production technology, IT/automation, quality assurance and digital technology.
- Industrial Training System : The industrial training system was initiated in 1994 to ease labor shortages facing SMEs, and strengthen industrial cooperation among Korea and other developing nations. As of 2003, about 47,000 foreign trainees from 15 nations including China, Vietnam, and Indonesia work in about 10,000 SMEs. Introduction of the employment approval system in 2004 enabled SMEs to employ foreigners on a more stable basis.
- Industrial Technician Certified System : This program was designed to ensure the availability of manpower at production sites and qualified technicians at middle class, thereby relieving SME labor shortage problems. Under this program, some of those on military duty are sent to manufacturing SMEs to work in the areas of production or manufacturing during the military service period. As of now, 68,000 men on duty work for 13,000 SMEs.



Enhancing the Market Access of SMEs >>

- Current Status of SME Exports

- As the consumer demands become more diversified and change constantly in the 21st century, marketing capabilities of enterprises have become more important than ever in the global market as well as domestic market. Accordingly, only the companies capable of opening new markets with aggressive marketing strategy can survive the fierce competition of this century. Nevertheless, export enterprises represent only 30% of the total small and medium manufacturers as of now. Also, the export destinations and products are limited to a few nations including China and the US, and some items such as IT and automobile.

- Support for the successful entrance of SMEs into overseas markets

- The SMBA is creating the favorable business environment for SMEs to facilitate the export of SMEs and the SMEs' access to customized export services of specialized export institutions.
- Efforts are being made to solidify domestic demand base of SME products by having government agencies purchase SME products, and supporting for domestic exhibitions by industry.
- Exhibitions are held in foreign nations to increase the contact between SMEs and foreign buyers, and talented human resources are dispatched overseas to be trained as trade professionals.
- In other efforts to encourage the entrance of SMEs into global markets, the SMBA helps SMEs to open up new overseas markets via export management corporations and obtain internationally recognized certifications, and provides them with information on International procurement market(www.b2g.go.kr).



Details

- Obligatory Purchasing of SME Products : This program has been run since 1981 for the purpose of expanding SMEs' market and supporting for their stabilized management. Under this program, the government agencies are obliged to purchase SME product preferentially for internal procurement.
- Support for SMEs' Participation in Overseas Exhibitions : In an effort to promote export of SMEs, the SMBA financially supports SMEs with dispatching their talented personnel to overseas exhibitions. As of 2003, the administration supported 1,209 SMEs with this program and it resulted in new export contracts worth 298 million dollars.
- Nurturing Talented Employees into Trade Professionals : The SMBA selects talented personnel capable of communicating in local languages and dispatches them to overseas markets to nurture them into trade professionals. The personnel selected are financially supported with domestic training, round-trip flight tickets, and part of traveling allowance. They are dispatched to the overseas trade centers, companies run by Korean businessmen, or overseas branches after taking 6-week training course in Korea. While staying in the overseas market for 4 months, they carry out activities to promote exports of SMEs.
- Supporting SMEs with Opening up New Overseas Markets : This program intends to help SMEs that depend heavily on domestic demands to open up new overseas markets. The administration is in full support of the entire export process of such SMEs. Under this program, the SMEs recipient are supported regarding trade training, catalogue preparation, survey of overseas market, and exploring new buyers, product P.R, and needed translation and interpretation. With regard to this program, 2,709 SMEs supported by the SMBA won export contract worth 892 million dollars for the past 5 years. The SMBA plans to support over 1,000 SMEs geared to domestic demand annually to help them expand their export base.
- Support through EMCs : Other support measures to expand the export base for SMEs include the selection of EMCs (Export Management Companies) for the transfer of know-how to fledgling export companies concerning overseas market research, negotiations with overseas companies, finding buyers, the execution of export contracts, customs clearance, shipping, payment and so on. As of 2003, 100 SMEs won 115 exports worth 565 million dollars with the help of 9 export management companies. On a mid-and-longer term, the administration will select and foster export management companies by region and product item, and utilize them as support infrastructure for fledgling export SMEs.
- Providing information on International Procurement Market : International procurement market amounts to 2 trillion won per year. However, Korean SMEs take up only 0.2% of the huge procurement market. In an effort to expand Korean SMEs' share of the international procurement market, the SMBA provides information on international bidding and main contractors in real time(1,000 pieces of bidding information per day) through the construction of the Integrated System on International Procurement(www.b2g.go.kr). It also offers training programs and seminars on the international procurement, and supports SMEs with participation in exhibitions.

Building Technological Innovation Capacity of SMEs >>

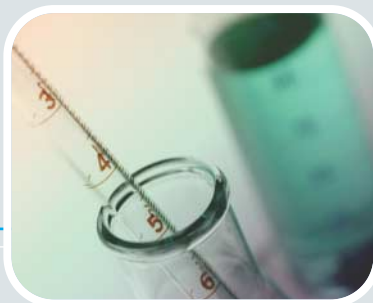


- Korean SMEs' Competitiveness in the Knowledge-based Economy

- In the knowledge-based economy, the competitiveness of SMEs will be determined by their knowledge and innovative capabilities. In this regard, the future of Korean economy will be characterized by the innovation level of SMEs, and their capabilities of utilizing IT technology and network.
- However, their technology capabilities remain merely 70% of the world's highest, and their R&D portion of the total sales records 1.5% on average, falling far behind that of large enterprises.

- Support for the Technology Innovation of SMEs

- To strengthen innovation capabilities of SMEs, the government is pushing various policies with focus on followings: fostering innovative SMEs that will lead the technology innovation of SMEs down the road; reinforcing networking of industry, academia and institute; promoting commercialization of developed technology; and establishing the infrastructure of digitalization.
- Various policy measures have been taken to reinforce Networking among enterprises or among industry, academia and institutes. The measures include 'SME R&D Institute', 'Industry, Education and Research Consortium Project', 'SME Technology Training Program' and training of SME employees in link with universities and research institutes.
- In an effort to prevent superior technologies from remaining unused, New Technology Commercialization Funds have been mobilized to fund the cost of facility investment and raw materials required for commercialization of new technologies.
- Various policy measures have been taken to reinforce Networking among enterprises or among industry, academia and institutes. The measures include 'SME R&D Institute', 'Industry, Education and Research Consortium Project', 'SME Technology Training Program' and training of SME employees in link with universities and research institutes.
- The SMBA is also helping SMEs to enhance their productivity through such measures as: assessment of SMEs digitalization level, provision of consulting for innovative digitalization and the establishment of IT infrastructure at productions sites of SMEs.



Details

- Fostering Innovative SMEs (Inno-Biz) : The SMBA intends to fully support the innovative SMEs equipped with superior technologies and technology-innovation system to ensure that they will grow into top global firms.
- Korea Small Business Innovation Research (KOSBIR) : To accelerate technology development of SMEs, the government agencies are recommended to use over 5% of their R&D support budget for SMEs. With regard to the KOSBIR, the SMBA spent about 600 billion won in 2003.
- SMEs Technology Innovation Program : The SMEs capable of developing technologies on their own are funded up to 75% of R&D expenses with the ceiling of 100million won by the SMBA. Regarding this program, the administration supported 1,752 SMEs in 2004 alone.

Brand New Car Information System developed by KOMD

KOMD(www.komd.co.kr) located in Seongdong-gu, Seoul, developed an ITS applied car information system and its export is expected to reach US\$ 12.5 million in 2004 alone.

The company participated in the SME Technology Innovation Program initiated by SMBA in 2001, and successfully developed the new information system with the help of universities and research institutes. After having 240 units of the information device installed on KHC patrol cars, in 2002, the company developed a low-price model, and exported the new model product to China. Its total export recorded 2.5million dollars in 2003 alone and it has already concluded export contract worth 12.5 million dollars for 2004, and 25million dollars for 2005.

In 2003, the company was awarded the grand prize of Inno-tech.

- New Technology Purchasing Assurance : In an effort to help commercialize new technologies, public institutions including Defense Ministry, Kepco(Korea Electric Power Corporation), Kogas(Korea Gas Corporation) commission SMEs to develop a new technology with the assurance that they will purchase the technology-applied product for a certain period of time. As of 2004, 35 technology development projects are in progress under the purchasing assurance of public institutions. It is expected that an increasing number of public institutions will participate in this program in the future.
- Industry-University-Institute Consortium Program : To boost technological capabilities of SMEs, universities or research institutes develop technology needed in the manufacturing field in collaboration with SMEs. About 218 consortia were formed across the nation in 2004, to support 2,900 SMEs with developing new technologies.
- On-the-spot support for SMEs : The SMBA offers on-the-spot support for SMEs to help them strengthen capabilities to quickly handle problems occurring at the production site.
- Evaluation of SME Digitalization Level : The government evaluates SMEs' digitalization level every year to reflect the result in making digitalization policies, promote SMEs' investment in digitalization, and raise awareness of the need for digitalization among SMEs. According to the result of the study conducted against 2,100 enterprises, in 2004, SMEs' digitalization level scores 47.9, remaining 68% of that of larger enterprises. It signifies widening digital gap between large enterprises and SMEs.
- Innovative IT Consulting : The SMBA selects some universities or institutes and has them provide customized consulting for each group of SMEs classified in terms of digitalization level. In 2004, the administration supported 1,300 SMEs with their digitalization process.
- E-Manufacturing Support Program : In an effort to improve productivity of SMEs, the SMBA supports SMEs with implementing manufacturing information system. For the set-up of the information infrastructure, the SMEs are funded with relevant software development of CIM(Computer Integrated Manufacturing), MES(Manufacturing Execution Systems), and POP(Point Of Production), and data base build-up.

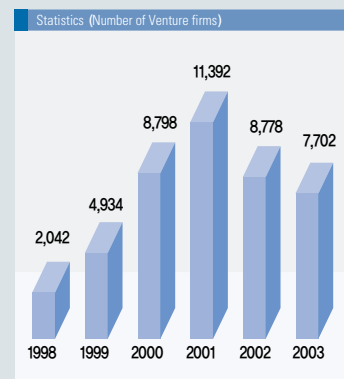


Promoting Venture Businesses >>



- Remarkable growth of Venture Businesses

- When the innovative SMEs first emerged in Korea around 1980s, they did not produce tangible results because of insufficient government support for them. However, backed by the government policy support of the establishment of Kosdaq market in 1996, and legislation of 'laws and regulations for venture business promotion, in 1997, they began to expand their presence. Then riding on the expanded business opportunities spurred by the advancement of IT technology, the innovative venture firms posted dramatic growth. They also made a significant contribution to the nation's economic recovery and transition into knowledge-based economy.



- Policies to promote venture businesses

- As venture businesses are expected to lead the Korean economy as strong growth engine in the future, the government will continue its policy stance to foster venture businesses. Also, the policies will be taken with focus on improved quality and competitiveness of SMEs rather than the quantitative growth.

- The government ensures that funds, human resources, land or other necessary production resources will stably flow into SMEs. To that end, efforts are under way to create the business environment that will facilitate start-up of innovative SMEs by easing or even removing regulations that used to hinder venture businesses, within the framework of special law on venture business promotion.

- Also, policy efforts are being made to facilitate active M&As of venture companies with the expectation that M&As will bring about beneficial effects: facilitated strategic alliances among enterprises, and venture investment; and freer movement of technicians.

- Besides, the government is promoting globalization of venture businesses through establishment of overseas support centers and global star funds.

NHN tops the Kosdaq market in terms of market capitalization

Since the establishment in 1999, NHN has been engaged in providing Internet portal services and on-line games. With the capital injection of 10billion won from the KTIC at the end of 1999, the venture firm further expanded its business capacity, and finally overtook YAHOO in Korea. NHN was listed on Kosdaq in 2002, and topped the market with the market capitalization of 1 trillion 738.4billion won, as of June, 2004.

Details

- Venture Support Program : The SMBA sets up standard of venture businesses such as R&D investment's proportion of the total and identifies those matching the standards as venture firms. In efforts to promote venture businesses, the administration provides a variety of supports for the enterprises identified as venture firms. The support measures include minimum paid-in-capital reduction, tax benefits, and other preferential measures.
- Promoting M&As of Venture Companies : To boost active M&As of venture businesses, the SMBA has been implementing various policy measures to ease relevant regulations, and provide supportive benefits for venture businesses since April, 2004. The measures to relieve regulations include simplified procedure regarding small-scale stock exchanges, corporate value assessment by certified institutions, streamlined procedure regarding M&As and business transfer, replacement of stockholders' meeting by executive board when shares traded are less than 50% of the total. Other policy measures have been taken to expand the scope of tax benefits regarding stock trades and M&As. Furthermore, in support of M&As of SMEs, the administration mobilized M&A funds worth 153.5 billion won in 2003, and plans to additionally set up 30billion won of funds.
- Overseas Support Center : Companies with prior experiences of supporting venture companies based on overseas network have been designated as overseas SME support centers. Up until now, 24 overseas support centers have supported 300 venture firms enter overseas markets.
- Fostering Venture Capital and Increasing Investment Sources : To promote investment into fledgling venture firms, the administration is taking measures to foster venture capital and increase resources that can be invested into venture sector. Efforts are also under way to improve the transparency regarding fund operation by venture capital firms, and to combine government funds and private sector contributions.
- Global Star Fund : Special-purpose funds will be set up to promote entrance of small and medium venture firms into global markets including emerging markets in Asia. The administration plans to organize 100-billion-dollar funds along with foreign investment institutions by the end of this year.
- Venture Cluster creation : In an effort to help foster regional venture businesses, 24 regions clustered with universities and research institutes have been designated as "districts for promotion of venture business development".

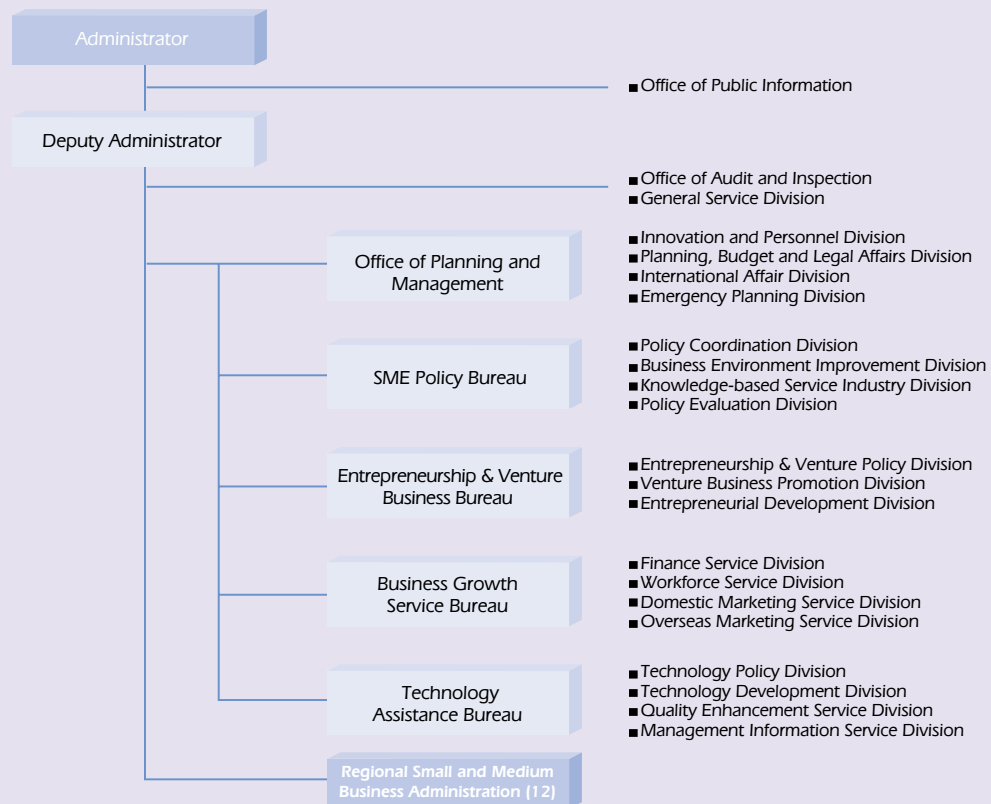
About SMBA >>



- As a central government agency, the Small and Medium Business Administration (SMBA) was established in February 1996 to set up and execute SME policies. The administration comprises 5 bureaus, 22 divisions and 12 regional offices.
- SME Policy Bureau, Entrepreneurship & Venture Business Bureau, Business Growth Service Bureau, Technology Assistance Bureau and Office of Planning and Management are placed under the SMBA headquarter to develop the most appropriate support policies according to SMEs' types and growth phases.
- Also, 12 regional offices were established for efficient policy execution and for on-the-spot support of local SMEs.

Organization and Major Functions >>

Chart of Organization



- SME Policy Bureau sets up basic plans to promote SME growth, eases SME-relevant regulations, fosters knowledge-based enterprises and evaluates SME-policies. There are four Divisions : Policy Coordination Division, Business Environment Improvement Division, Knowledge-based Service Industry Division and Policy Evaluation Division. Each Division is in charge of following tasks.
 - Policy Coordination Division : establishes SME-support policies, provides tax benefits for SMEs, prepares long term SME outlook and promotes local industries.
 - Business Environment Improvement Division : eases SME-relevant regulations, promotes cooperation between large enterprises and SMEs, and deals with the affairs regarding SME cooperative association, and SME management environment enhancement.
 - Knowledge-based Service Industry Division : fosters knowledge-based service enterprises, provides consulting for SMEs, and seeks ways to promote traditional market.
 - Policy Evaluation Division : evaluates SME policies and performance, analyzes SME trends, and surveys public opinions on SME-support institutions.

SMBA - the Partner of SMEs

- Entrepreneurship & Venture Business Bureau establishes start-up support plans, fosters venture businesses, and women-owned enterprises, raises venture capital, and provides start-up information. There are three Divisions : Entrepreneurship & Venture Policy Division, Venture Business Promotion Division, and Entrepreneurial Development Division. Each Division is in charge of following tasks.
 - Entrepreneurship & Venture Policy Division : sets up basic plans for promoting start-up and venture businesses; streamlines procedures for start-up and factory-building; and deals with affairs regarding start-up funds operation.
 - Venture Business Promotion Division : copes with matters with regard to set-up of basic plans to raise venture capital; management of venture capital firms, and investment cooperatives; and support for individual and institutional investors.
 - Entrepreneurial Development Division : deals with matters regarding support for small merchants, small enterprises, and women-owned enterprises; training for company-founders; and operation of and support for business incubating centers.
- Business Growth Service Bureau supports SMEs with finance, credit, human resources, and domestic and overseas marketing activities. There are four Divisions : Finance Service Division, Workforce Service Division, Domestic Marketing Division and Overseas marketing Division. Each Division is in charge of following tasks.
 - Finance Service Division : deals with matters pertinent to financial support for SMEs with policy funds, expanded credit loan services and credit guarantee services.
 - Workforce Service Division : copes with matters regarding supports for SMEs with employee-training, and human resource management based on the analysis of the employment trends, and more sophisticated workforce structure of SMEs.
 - Domestic Marketing Division : deals with matters concerning product promotion, common brand development, exhibition facility operation, solidifying base for demand and building up market for SME products.
 - Overseas Marketing Division : copes with matters regarding export policies for SMEs and supports them with overseas marketing, overseas investment attraction, and nurturing export experts.



- Technology Assistance Bureau helps SMEs with their capabilities for technology innovation, offers them guidance on the development of technology, and accelerated digitalization. There are four Divisions : Technology Policy Division, Technology Development Division, Quality Enhancement Division and Management Information Service Division. Each Division is in charge of following tasks.
 - Technology Policy Division : supports SMEs with preparation and utilization of technological statistics, and deals with matters regarding set-up of basic plans for SMEs' technology innovation capability, promotion of innovative SMEs, and skilled labor force.
 - Technology Development Division : deals with affairs related to set-up of support policies aimed at promoting SMEs' technology development; technology transfer; and technological cooperation among industry, academia, and research institute.
 - Quality Enhancement Service Division : takes charge of matters pertinent to technical training services for SMEs; product quality control; support for SMEs with testing, analysis, and evaluation; and testing equipment sharing among SMEs.
 - Management Information Service Division: takes charge of promoting SME digitalization and electronic commerce.

- The Office of Planning and Management deals with affairs of organization and budgeting, required for overall operation of SMBA. There are four Divisions : Innovation and Personnel Division; Planning, Budget & Legal Affairs Division; International Affairs Division; and Emergency Planning Division. Each Division is in charge of following tasks.
 - Innovation and Personnel Division : manages personnel, organization, and administrative institutions.
 - Planning, Budget & Legal Affairs Division : takes charge of budgeting, and all relevant matters of law and the National Assembly.
 - International Affairs Division : deals with all matters regarding bilateral & multilateral cooperation and exchanges between the administration and foreign governments or international agencies.
 - Emergency Planning Division : copes with all relevant matters in preparation against national emergency situation.

- Besides, three other offices are located in the SMBA. The Office of Public Information is in charge of PR for SME policies, the Office of Audit and Inspection conducts internal audits, and the Office of General Service deals with general administrative affairs of SMBA.

- 12 Regional offices of Small and Medium Business Administration, located in major cities, are in charge of executing SME promotion policies made by SMBA headquarter. They support local SMEs in the regions by resolving many on-the-spot difficulties faced by SMEs.



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