

FINANCIAL POLICY PLANS TO SUPPORT INNOVATIVE START-UPS & SMEs

The FSC outlined this year's policy plans to support Korea's innovation-led growth on February 26, 2020, as a follow-up to the 2020 work plan announced on February 17. The plans are intended to provide innovative start-ups and SMEs with financing support.

KEY PLANS

I. TARGETED SUPPORT TO 1,000 INNOVATIVE FIRMS

The government will select more than 1,000 innovative companies and provide KRW40 trillion in loans, investment and guarantees.

- **SELECTION**

Candidates will be selected upon recommendations by economic ministries, financial companies and venture capitalists. A consultative body of policy banks will review candidates and select 1,000 companies based on their innovativeness of business.

- **FINANCIAL SUPPORT**

Those selected will be provided with KRW40 trillion over three years: KRW15 trillion in loans, KRW15 trillion in investment and KRW10 trillion in loan guarantees.

- **INNOVATIVE FIRMS WITH GLOBAL COMPETITIVENESS**

Among 1,000 firms, 30 or more companies showing growth potential for global markets will be selected and provided with assistance to attract private investments from domestic and overseas venture capitalists.

II. Introduction of Business Credit Scoring System Modeled after Paydex

The government plans to develop a business credit scoring system modeled after Paydex.¹ The new system is designed to use companies' non-financial business transaction information to determine their credit scores, thus offering companies a complementary channel to raise funds.

¹ Business credit score widely used in the U.S. Businesses have to register with Dun & Bradstreet and have a valid D-U-N-S number.

▪ **DEVELOPMENT PLAN**

- a) Set up a database of business transactions through collection of data from the Korea Credit Guarantee Fund and from external institutions, such as the Korea Financial Telecommunications & Clearings Institute and the Korea Employment Information Service
- b) Produce business credit scores using the business transactions database after reviewing payment histories, business activities and payment capabilities of companies
- c) Provide business credit scores to banks for the development of new guarantee products based on these scores, and promote a wide usage of the business credit scoring system through cooperation with private credit bureaus

III. Introduction of Collective Guarantee Scheme for SMEs

The government will introduce a collective guarantee scheme in the first half of this year through which SMEs are able to receive guarantee support for the purpose of financing contract-based projects with large companies.

▪ **BACKGROUND**

The new guarantee scheme aims to address the limits in the current corporate credit evaluation system where SMEs are not able to raise sufficient level of funds due to their unfavorable sales performance and/or capital strength. It will provide a prompt guarantee support to individual SMEs through application of joint credit line for each business-industry group. At first, the collective guarantee scheme will be available for the suppliers in the shipbuilding and auto industries, and will then be extended to other business-industry groups.

▪ **OPERATION**

- a) Set up maximum guarantee amount available for each business-industry group (e.g. a small- or medium-sized material supplier to a large shipbuilding company, or a second-tier supplier to a large automaker)
- b) Individual SMEs in each business-industry group can apply for guarantees, and the Korea Credit Guarantee Fund will issue credit guarantees after conducting a minimum necessary level of review.

IV. Introduction of Non-recourse Factoring

The government will introduce non-recourse factoring² to address the limits of the current factoring system³ and help ease subcontractors' concern about the possibility of their buyers going bankrupt.

² Non-recourse factoring: a factoring company assumes most of the risk of non-payments by contractor

³ Under the current system where recourse factoring is prevalent, a factoring company can claim non-payment from subcontractors when buyer defaults on the contract and goes bankrupt, which could trigger a chain of bankruptcies to suppliers.

- **NON-RECOURSE FACTORING**

The Korea Credit Guarantee Fund will assume the risk of bankruptcy by having subcontractors to sell their accounts receivable to the factor without the burden of recourse liability. During a test-run period, the KCGF will purchase about KRW50 billion worth of accounts receivable per year and gradually increase the purchase amount.

- **FURTHER PLAN**

The non-recourse factoring will be pilot-launched in the second half of this year through designation of the KCGF as an 'innovative financial service' provider under the regulatory sandbox program.

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