

『Going beyond Guarantee for SMEs

: Seeking ways to stay relevant to SMEs in the evolving SME financing ecosystem』

1. Organizational Profile

1) Overview of KOREG & CGFs

Korea Federation of Credit Guarantee Foundations (KOREG) was established in August 7, 2000, in accordance with the Regional Credit Guarantee Foundation Act, in order to contribute to the advancement of small & micro enterprises as well as local economy by working to enhance the mutual benefits of 16 Credit Guarantee Foundations (CGFs) and by providing re-guarantee services. As a nonprofit public organization set up to ensure the stability and economic growth of the region with credit guarantee assistance, our core responsibility is to support 16 regional CGFs through re-guarantee services for the guarantees provided by CGFs on behalf of SMEs to the bank. This assistance enables CGFs to stabilize their reserves and maintain financial strength.

[Major activities]

KOREG

Re-guarantee service for CGFs

R&D on methods of credit investigation, Management of credit information, etc.

Management of joint projects and programs initiated by CGFs

Education and Training for executives and employees of CGFs

Debt collection at the request of CGFs

Cooperative work with government, financial institutions and other related organizations

CGF

Credit guarantee

Credit investigation

Credit information management

Business consultation

General asset management

Exercise of right to indemnity

[Funding Sources]

Contributions from government and financial institutions, and guarantee fees

[Governance]

KOREG: Central government – Ministry of SMEs and Startups (MSS)

CGFs: Local government and MSS

[Operation flow]

KOREG re-guarantees the guaranteed amounts by CGFs to the bank to help SMEs access to financing facility; by so doing, the losses from a credit default are split between KOREG, CGF, and the bank. Every fiscal year, KOREG and CGFs conclude a comprehensive re-guarantee contract. The contract includes a ceiling amount of re-guarantee liabilities that KOREG assumes during the term. Within this ceiling amount, the CGF's guarantee risks are partially and automatically covered by KOREG under the following operational flow of the Credit Guarantee System and Re-guarantee System.

1. The small & micro enterprises apply for the guarantee to a CGF.
2. The CGF issues a letter of guarantee to the financial institution after screening the guarantee application.
3. The financial institution provides the guaranteed loan to small & micro enterprises.
4. The small & micro enterprise pays the guarantee fee to the CGF.
5. The CGF pays the re-guarantee fee to KOREG.
6. In case small & micro enterprises cannot repay the guaranteed loan, the financial institution requests payment in subrogation to the CGF. After screening the request for payment in subrogation, the CGF repays the financial institution in place of small & micro enterprises.
7. The CGF claims payment of loss compensation (re-guarantee money) to the KOREG, after making payment in subrogation.
8. KOREG pays the CGF the agreed percentage of the subrogated amount subject to the contract after screening the claim of loss compensation.
9. When the CGF recovers money by exercising the right of indemnity, it pays KOREG the sum equivalent to the proportion covered by the re-guarantee.

- Coverage Ratio: 30~80% of guaranteed amount by CGF
- Re-guarantee Limit: varies depending on each CGF
- Re-guarantee Fee: yearly rate of 0.8~1.0%
- Period: one year (renew every year)

2) Performance

* Refer to the slide and annual report 2016

2. Activities beyond Credit Guarantee

1) SBDC (Small or Self-employed Business Development Center) run by Seoul CGF (SCGF)

Seoul CGF operates the center entrusted by the Seoul metropolitan government to provide comprehensive support for self-employed business owners through partner works with experts and institutions related to MSMEs.

The center was established in July last year comprised of 6 dedicated teams for the inclusive service, staffed with 45 employees. The Seoul city allocated around 4 million USD to implement the project in 2017. SCGF has designed an integrated system to solve the needs of micro and small businesses from its start to the end including counseling, legal advisory, market analysis, training, etc.

There are various systems and institutions to support SMEs in Korea at present, while SMEs have difficulties in finding ones available and suitable for them. Hence the key role of this activity is to offer a range of services to the self-employed businesses at all different stages of the business cycle at one place.

One of representative work of the center is to give assistance for the collaboration work between self-employed business owners. A group of more than three can apply for the program and they can get financial aid from SCGF to rent work places or facilities for joint use and other supports as well. In 2016, a total of 15 groups collaborated by 56 businesses were supported by the system.

2) Financial Doctor Program of Gyeonggi CGF (GCGF)

It is a financial advisory service offered by GCGF for those applying for the guarantee assistance or making repayment for the loan under guarantee and even for those the CGF exercised the right of indemnity to. The record shows that GCGF has supported 4,024 businesses with the system this year.

- Start date: October, 2015
- Objectives: To help SME ease of doing business by providing the accurate state of its financial conditions, information on available credit and financing for the sustainable growth
- Eligibility: Businesses guaranteed by CGF
- Provision: Comprehensive offering of financial analysis, financing options, debt resolution, management, etc.

Other than the advisory to guarantee beneficiaries, GCGF operates a comprehensive counseling center for all the residents in the region. The range of its service is a lot wider than SME related advisory work including personal finances, welfare program, employment, education, etc.

3. Tasks Ahead

1) Issues & Challenges

The changes in financial environment require changes in our system accordingly. Particularly, a comprehensive support system is in need to help MSMEs meeting its service level and also for the policy institutions like us to stay relevant to the system and maintain the organization itself.

In the way of finding how to go beyond guarantee business as a credit supplementation institution, some CGFs have already started to broaden their work areas to the next level as a policy fund execution agency carrying out additional services for enterprises and individuals through the project works entrusted by the local government. However, many of the CGFs are still doing limited work.

2) Sharing & Expansion

CGF is the only public institution with expertise in the financial sector among other ones under the local government. It has a large amount of data and financial infrastructure applicable to expanding the range of works and promotions to support MSMEs. To strengthen our roles and pioneer new business areas, KOREG and CGFs are considering plans as below:

- Driving growth of activities with Expertise & Infrastructure using benefits as a financial public institution
 - Policy Fund execution
 - Credit Guarantee linked support of Business Consultation
 - Cooperation between Micro-enterprise supporting center and CGFs
 - Expanding Training & Consultation work to every CGF
 - Data Utilization for guarantee and other activities
- Creating New work areas to find ways to stay relevant to SMEs in the evolving SME financing ecosystem
 - Implementing the financial affairs of local governments (e.g. Housing fund)
 - Organizing an expert team to explore new business areas