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## **SMEs to Soar New Heights - MSS announced the new strategies for SMEs**

MSS has prepared five new strategies and 17 tasks to help SMEs prepare for the future and accelerate their entry into new industries.

**Sejong, May 7, 2024** – The Ministry of SMEs and Startups (MSS, Minister OH Youngju) has announced a new strategy to help small and medium-sized enterprises (SMEs) soar to new heights. This announcement outlines the mid-to-long-term policy direction for SMEs. The strategy focuses on five key areas: Innovative Growth, Sustainable Growth, Growing Together, Leap to Global Companies, and Smart Support.

SMEs comprise the core of the South Korean economy, accounting for 99% of the total number of enterprises, 81% of employment, and 65% of value added. In particular, SMEs have a strong foundation for innovation, with their R&D investment as a percentage of sales exceeding that of large companies. However, in recent years, the global business environment has rapidly deteriorated due to the US-China competition for hegemony, protectionism in high-tech industries, and ESG trade barriers. Moreover, the internal and external business environment is facing increasing difficulties, such as the accelerating emergence of new industries, increasing pressure for digital transformation, and intensifying job shortages for SMEs due to changing demographics.

MSS has identified the issues faced by SMEs and gathered expert opinions in each field, believing that they can find solutions to the problems on the ground. They have established five strategies and 17 tasks through the "Innovation TF for Wise Answers to the Problems" as a solution to on-site problems.

The details of each strategy are as follows:

## **(Strategy 1) Innovative Growth**

### **1. MSS aims to facilitate the growth of small and medium-sized enterprises by motivating and supporting them to enter new industries.**

MSS plans to comprehensively reorganize the business transition system so that small and medium-sized enterprises (SMEs) operating in stagnant industries can enter new and promising industries. The government will consider the entry of existing SMEs into new industries as a "second startup" and provide support to help them succeed. This support will include sharing risks as much as possible, providing dedicated packages, and establishing special cases for deregulation.

### **2. MSS will enhance the productivity of small and medium-sized enterprises (SMEs) by utilizing artificial intelligence (AI) and digital transformation across various industries.**

MSS is working to establish a standard guide for manufacturing data with the aim of streamlining production at SMEs. Instead of focusing only on individual facilities, this standard will facilitate digital connections between factories and companies. This approach will improve cooperation links between regional specialized AI centers, regional TPs, and local governments to disseminate AI process solutions. Additionally, MSS will select the best AI-related startups in Korea and provide intensive support according to each growth stage. This will be done while promoting their growth with demand-based collaboration and service purchases with large Korean and global companies.

### **3. MSS is set to revolutionize the R&D process, transforming it into true research and development.**

MSS is planning to increase the current R&D support for national strategic technologies from 38% to over 50%. The Korea Small Business Innovation Research Program (KOSBIR) will also be reformed to focus on obtaining outcomes in technology commercialization rather than achieving quantitative targets. MSS aims to improve the effectiveness of R&D projects by verifying their performance through market and technology experts.

### **4. MSS will encourage market-driven investments in venture capital and mergers and acquisitions (M&A).**

To encourage private funds, such as pension funds, to enter the venture capital investment market, MSS plans to consider providing incentives, such as priority loss appropriation of a fund of funds. MSS will also devise a mid- to long-term operating direction in preparation for the expiration of the fund of funds. In addition, MSS will build an M&A platform where

specialized policy financial institutions with corporate contacts and private intermediaries cooperate to provide customized support for each type of M&A.

## **(Strategy 2) Sustainable Growth**

### **5. MSS will make an opportunity for SMEs to grow through the transition to a green economy.**

With carbon reduction regulations and strengthened ESG standards becoming new trade barriers, the government plans to respond proactively and use these challenges to strengthen SMEs' global competitiveness. ESG factors will be reflected in the evaluation index of innovative SMEs such as venture businesses, innovation businesses, and main businesses so that SMEs can prepare in advance for attracting investment and IPOs. Furthermore, a collaborative support system between private and public sectors will be established to promote Environmental, Social, and Governance (ESG) practices. This system will offer carbon-reducing technologies and specialized consultation services. The relevant government ministries will also work together to develop ESG integration guidelines that will aid in the effective implementation of ESG initiatives.

### **6. MSS will develop a preemptive crisis response mechanism.**

MSS plans to launch an early warning system that will help SMEs identify and respond to financial risks in advance. Additionally, MSS intends to offer increased financial support to financial institutions to assist SMEs experiencing temporary financial crises proactively. This support will be provided through a program called the "SMEs Turnaround System" (name subject to change), which aims to help stabilize the businesses of struggling SMEs.

### **7. MSS will provide assistance for the process of 'corporate succession' in preparation for aging demographics.**

The traditional concept of "family succession" (kinship) will now expand to include "corporate succession" (M&A, etc.) to support small and medium-sized enterprises (SMEs) struggling to pass on their businesses to family members due to the declining birthrate and aging population. For SMEs that wish to succeed through M&A, the central government, local governments, and private intermediaries will establish a support system to assist in all stages of M&A preparation and consulting, M&A matching and brokerage, and post-M&A management integration.

### **8. MSS will redefine small and medium-sized enterprises (SMEs) in order to strengthen their position as stepping stones for growth.**

The government will be reviewing the appropriate sales levels for SMEs by industry due to recent high inflation and industry changes. These levels have not been adjusted for ten years since 2015. Additionally, the SME tax exemption period under the Act on Restriction on Special Cases Concerning Taxation will be extended. This will align with the graduation grace period for SMEs, which will be extended from three to five years.

### **(Strategy 3) Growing Together**

#### **9. MSS will innovate the supply chains between large corporations and their SME partners.**

The government is launching an innovation project to respond to the global reorganization of the supply chain effectively. The project aims to develop a new supply chain that can benefit both large companies and SMEs. This will allow the growth ecosystem to move away from the conventional framework of large companies that provide benefits to smaller companies. Instead of concentrating on ESG transformation at the individual company level, there is an opportunity to bring about ESG transformation across the entire supply chain between large companies and collaborating SMEs. To assist manufacturing SMEs that have limited financial capabilities to expand overseas together with large companies, MSS will provide support by constructing overseas production facilities and establishing local marketing and networking.

#### **10. MSS will fully support the growth and development of local small and medium-sized enterprises (SMEs).**

MSS will consider extending the period for local SMEs to be recognized as entrepreneurs from the current seven years to a maximum of 10 years. This initiative aims to encourage entrepreneurs to establish their businesses in non-metropolitan areas where the conditions are less favorable for starting technology-based companies. Additionally, MSS plans to launch the Legend 50+ 2.0 program, which provides matching support to selected local core companies based on specialized industrial strategies formulated by local governments.

#### **11. MSS will establish a conducive work environment where companies and employees can thrive together.**

MSS aims to decrease the wage gap between large corporations and small to mid-sized enterprises (SMEs) and create a family-friendly work environment to encourage employees to remain working in SMEs. Additionally, the government will improve the benefits of the popular Naeil Chaeum Mutual Aid Program for SME employees and explore the possibility of establishing a "Preferential Savings for Young SME Employees" program to help them build

up additional assets. Furthermore, there will be increased welfare support for SME workers, such as English camps for their children, vacation expenses, and wedding venue rentals.

#### **(Strategy 4) Leap to Global Companies**

##### **12. MSS aims to enter the global market by hiring talent from around the world.**

MSS aims to address the labor shortage faced by SMEs in Korea by increasing the employment of foreign students and experts from universities overseas. To achieve this, MSS will provide support for visa conversion for foreign students and talent matching in collaboration with overseas bases like diplomatic missions. Additionally, study-employment programs will be promoted to further boost the employment of foreign students.

##### **13. MSS will attract global capital and promote technology exchange.**

MSS plans to establish a global fund of KRW 4 trillion by 2027. The fund aims to assist Korean startups in attracting foreign investment by investing in overseas funds and a fund of funds. MSS will also promote investment in Korean SMEs through a global CVC investment network that includes large company CVCs. The plan also includes support for R&D collaboration with leading overseas research institutes and universities like the Fraunhofer-Gesellschaft and the Steinbeis Foundation in Germany.

##### **14. The infrastructure required to facilitate global expansion will be improved and strengthened.**

The Korean government will establish a "Public-private Global One-team" to assist small and medium-sized enterprises (SMEs) in overcoming difficulties faced in foreign countries. This team will collaborate with overseas diplomatic missions, public institutions, and overseas branches of large companies. A "Global Center" will also be set up to provide comprehensive information on overseas markets and regulatory trends. The government also plans to amend relevant laws to enable newly established overseas corporations that have production, R&D, and other cooperation networks with Korea to receive the same government support as Korean companies. However, this support will be limited to those companies that contribute to job creation and added value in Korea.

#### **(Strategy 5) Smart Support**

##### **15. MSS will innovate the support system based on AI and big data.**

MSS plans to enhance the support system by introducing AI and big data. To select and

evaluate companies for support, an AI and big data-based company evaluation model will be used. This model will help to identify companies with high technological innovation capabilities and commercialization potential. The government will test evaluation models such as the "Technology Evaluation Standard Assessment Model," "Corporate Innovative Growth Capability Index," and "Technology Originality Judgment Model." Starting next year, these models will be made available to the private sector as an open platform. Companies can use these models to self-assess their capabilities, which will help them to improve their technological innovation capabilities and commercialization potential.

#### **16. Policy finance supports stable growth.**

MSS will strategically increase financial allocation in new growth sectors and innovative companies. By 2027, the proportion of policy finance allocated to new growth sectors will be increased from 53% to 70%. More than half of the policy financing will be provided to new innovative companies, and the success rate of commercialization will be improved by linking policy finance with startup and R&D support projects.

#### **17. MSS plans to deregulate regulations related to on-site operations.**

MSS is planning to launch a new program called "Regulation Navigation." This program will provide businesses with information about upcoming policy changes and regulations based on their business history, number of full-time employees, and sales. Additionally, a "Startup Regulation Tree (tentative name)" will be introduced to help companies understand and comply with regulations by business model in new industries. Regulatory monitoring teams will be established at 13 Offices of SMEs and Startups to identify and deregulate unreasonable on-site regulations.

In the future, the Ministry of SMEs and Startups will create detailed action plans for each task to implement new strategies that cover the 17 tasks mentioned above. The Ministry will also accelerate necessary legislative procedures for enacting and revising laws and regulations. Additionally, MSS will strive to enhance cooperation with related ministries to ensure effective support for SMEs.