

FSC ANNOUNCES MEASURES TO STRENGTHEN FINANCIAL SUPPORT FOR BUSINESS TRANSFORMATION

The FSC unveiled a plan to provide financial support in the amount of about KRW1 trillion to companies pursuing business transformation to cope with changing digital and environmental conditions in order to help domestic companies regain their competitiveness edge and expand their business areas.

BACKGROUND

In the process of responding to the COVID-19 pandemic, the rapidly changing business conditions such as digital transformation and carbon net zero movement have necessitated businesses to make changes at a greater level. Considering a slowdown in the level of business productivity, it has become necessary for companies to proactively seek structural transformation of their business in order to enhance the level of competitiveness.

MEASURES TO SUPPORT BUSINESS TRANSFORMATION

Currently, the Ministry of Trade, Industry and Energy (MOTIE)'s standards for approving business transformation activities and the evaluation standards used by financial institutions remain different, so that it has been difficult to provide financing support to those that have been approved by MOTIE.¹

⇒ Therefore, authorities will strengthen the pre-selection process to ensure that businesses that are eligible to receive financial assistance are selected as the entities pursuing business transformation by introducing a two-staged evaluation process (evaluation of disqualification criteria and evaluation of technological prowess).

a) The business transformation support center will examine² the financial conditions of applicants and determine whether there are any reasons for disqualification.³

¹ The credit rating of most (66.3%) of the MOTIE-approved entities for business transformation was BB or lower (as of end-June 2021), which shows an inadequate level of consideration about whether it will be appropriate to provide financing assistance to them (e.g. ground for disqualification due to financial status, etc.)

※ Pursuant to the Special Act on the Corporate Revitalization, the MOTIE selects companies pursuing business transformation through evaluation based on the following criteria—(a) entering new industry, (b) easing oversupply or (c) overcoming crisis in industrial crisis area.

² Personnel from relevant government-sponsored financial institution to be stationed at the business transformation support center to conduct examination.

³ Possible grounds for disqualification (specifics to be decided later): marginal firms, credit rating of CCC or below, capital impairment, etc.

- b) A technology credit bureau (TCB) will examine and determine the technological prowess and the viability of business model for those that have passed the evaluation of disqualification criteria.⁴

Through TCB's technology appraisal,⁵ the feasibility of new business model will be evaluated such as the potential for expanding sales, operating profit, etc., and the capability for capital expansion will be evaluated by analyzing financial statement and looking into whether the company has acquired new investors.

Moreover, due to the current shortage in the availability of financing support programs intended for companies pursuing business transformation, the actual provision of support in practice has remained insufficient thus far.

⇒ Therefore, authorities will strengthen the financing support programs intended for companies pursuing business transformation and begin to provide KRW1.0 trillion or more in financing support.⁶

- a) KRW220 billion worth of fund will be established for the purpose of investing in companies seeking business transformation.

- The business transformation innovation fund (KRW75.0 billion) overseen by the Korea Institute for Advancement of Technology (KIAT) will invest 60 percent or more of funds in companies pursuing business transformation.
- The business transformation fund (KRW145.0 billion) overseen by the Industrial Bank of Korea (IBK) will invest 50 percent or more of funds in companies pursuing business transformation.

- b) KRW700 billion or more in financing support through loans and guarantees will be made available with preferential interest rates, etc.

- The business transformation enhancement support fund (KRW500 billion) overseen by the Korea Development Bank (KDB) will offer up to 1.0 percentage point lower interest rates to those that have been approved for business transformation by MOTIE.
- The business transformation guarantee program (KRW100 billion) overseen by the Korea Credit Guarantee Fund (KODIT) will provide preferential offers on guarantee rates, guarantee fees and maximum guarantee amounts⁷ to those that have been approved for business transformation by MOTIE and those otherwise seeking business transformation.

⁴ For SMEs and startups with insufficient sales performance and collaterals, providing active financial support is difficult, thus requiring a technology appraisal which considers a company's technological prowess in conjunction with its credit standing.

⁵ The result of TCB's technology appraisal is currently being used for tech credit-based lending by banks and for the management of subcontractors by large companies.

⁶ Businesses approved by MOTIE (selected under the Special Act on the Corporate Revitalization) and businesses seeking business transformation (those approved by MOTIE and those otherwise seeking business transformation added)

⁷ (For those approved by MOTIE) 95% guarantee rate, up to 0.5%p guarantee fee rate reduction, preferential treatment on maximum guarantee amount

(For those otherwise seeking business transformation) 90% guarantee rate, 0.2%p guarantee fee rate reduction

- KODIT will also support the issuance of primary collateralized bond obligations (P-CBOs) in the amount of about KRW100 billion for business transformation of companies that have been approved by MOTIE.

c) About KRW100 billion in liquidity support will also be made available through KAMCO's purchase and lease of assets owned by those approved for business transformation.⁸

FURTHER PLAN

Authorities will begin to implement the evaluation of disqualification criteria and the TCB assessment for qualified entities for businesses selected from September 2022, while continuing to provide assistance to companies seeking business transformation. To continue to provide support for business transformation activities in the future, financial assistance from state-backed financing programs will focus on large-scale, long-term and risk-prone sectors.

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⁸ For the purpose of supporting businesses undergoing temporary liquidity shortage to maintain their business operation while making improvements to their financial structure.