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Creative Finance  
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## Press Release

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May 24, 2013

### ‘GROWTH LADDER FUND’ TO BE LAUNCHED TO SUPPORT SMES AND VENTURE COMPANIES

#### **BACKGROUND**

A healthy investment ecosystem for start-ups and investors is an essential foundation for “Creative Economy”<sup>1</sup> and “Creative Finance.”<sup>2</sup>

Start-up companies are often faced with funding shortages as the early stages of business start-up & growth involve greater risks for investors due to uncertainties and asymmetric information. The expectation gap between start-up owners and investors about commercial value of technology and business profitability often creates a supply-demand imbalance of funds, called “Death Valley” for start-ups.

The government and public financial institutions are called to take the role of addressing such imbalance and create a sound and well-functioning ecosystem.

#### **CURRENT FUNDING CONDITIONS FOR SMES & VENTURE COMPANIES**

Overall, SMEs and venture companies are provided with sufficient funds and liquidity through supportive measures by the government.<sup>3</sup>

The funding structure of SMEs is, however, highly dependent on loans from banks and public financial institutions with 99% of SME financing from loans, while the proportion of investment remain small.

Investors remain risk-averse with most investment disproportionately concentrated towards the latter phase of business cycle which involves less risks compared to the early stage of business start-up. The percentage of venture capital invested in companies with less than 3 years of operation remains a mere 30%.

Loan type investments with high interest burden such as convertible bond and redeemable preferred stock are increasing.

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<sup>1</sup> The “Creative Economy” refers to an economy in which the convergence of technology, culture and industries creates new opportunities for growth, markets, and job creation.

<sup>2</sup> The “Creative Finance” refers to the role of financial sector which ensures the system of Creative Economy works smoothly and facilitates the convergence of various industries.

<sup>3</sup> Bank loans to SMEs amount to a total of KRW 29.3, more than 70% of corporate loans in 2012; and venture capital worth more than KRW 1 trillion a year has been raised with KRW 1 trillion in 2010, KRW 1.2 trillion in 2011, and KRW 1.2 trillion in 2012.

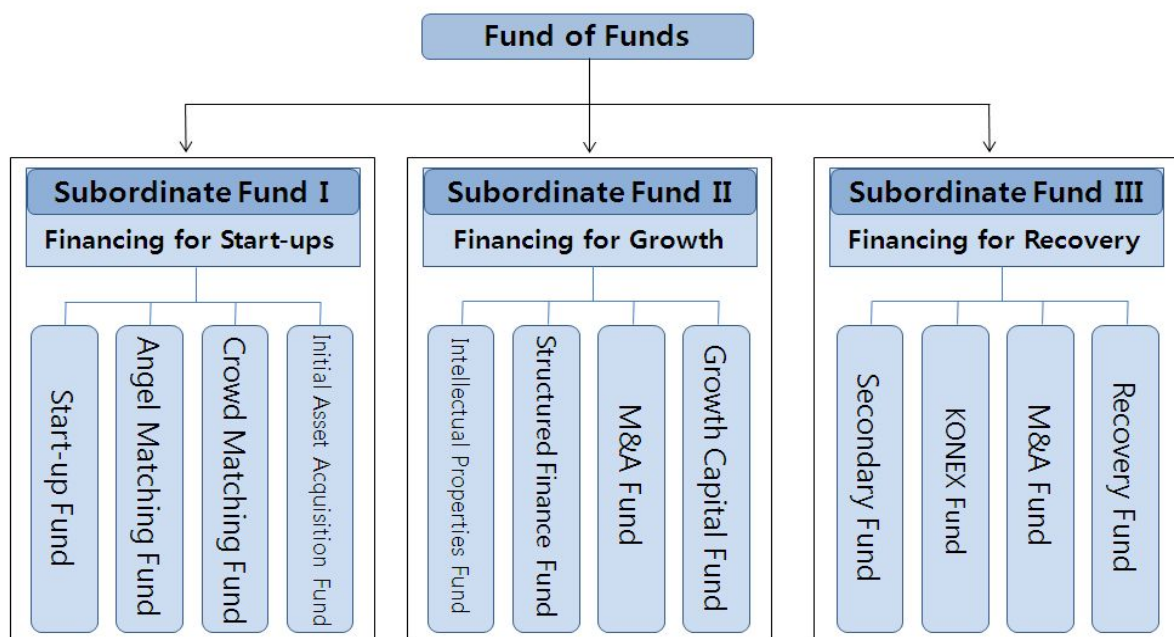
(unit: %, Korean Venture Capital Association)

	Common Stock	Preferred Stock	CB/BW	PF	Etc.
2012	19.5	39.6	14.9	19.9	6.1
2011	27.4	35.2	16.4	17.8	3.2
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2006	46.2	19.9	12.1	12.7	9.0
2005	36.8	17.2	16.7	16.2	13.2

### **CREATION OF ‘GROWTH LADDER FUND’**

The government plans to create a dedicated fund, tentatively named ‘Growth Ladder Fund’, to address such problems in funding conditions of SMEs & venture companies and to provide innovative SMEs & venture companies with sufficient funds.

The fund will be structured in the form of ‘Fund of Funds’ composed of various funds and subordinate funds with different purpose and structure to meet funding needs tailored to different stages of the business cycle.



Funds will be raised separately by public financing corporations and the private sector and then combined together to form each subordinate funds.

## **OPERATION OF THE FUND**

Operation of the fund will be commissioned to private institutions with expertise in each sector. Investors to each fund will exercise their voting rights to nominate a private institution to run the fund.

## **PROFIT DISTRIBUTION**

In order for the fund to fulfill its purpose as venture capital, public financing corporations will participate as junior creditor (high risk-high profit) and private investors as prior creditor (low risk-low profit).

The Banks Foundation for Young Entrepreneurs<sup>4</sup> will also invest in the fund as a means to reduce risk burdens of public finance.

Public financing corporations and Banks Foundation for Young Entrepreneurs will invest in high to medium risk funds and private investors will invest in low risk funds. Doing so will create an environment to encourage private funds inflow into SMEs and venture companies.

## **SIZE OF THE FUND**

In the first year, the fund will be launched worth KRW 2 trillion composed of KRW 0.6 trillion raised from public financial institutions and KRW 1.4 trillion from the private sector.

The size of fund will be expanded up to KRW 6 trillion over the next three years since its creation, with KRW 1.85 trillion raised by public financial institutions and KRW 4.15 trillion raised through investment by the private sector.

## **EXPECTED ECONOMIC OUTCOMES**

According to estimates by the Korea Institute of Finance, the fund worth KRW 2 trillion in the first year is expected to increase KRW 5.5 trillion in production and create 270,000 new jobs.

## **FUTURE PLAN**

The FSC will form a task force composed of public financial institutions and experts in May and come up with a fund operation plan in June. In August, subordinate funds will be created, and general partners (GPs) for each fund will be selected to attract investors. The fund is expected to be in operation by the third quarter of this year.

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<sup>4</sup> Founded by the banking industry in May, 2012 to support investment and guarantee surety for young entrepreneurs