EBRD coronavirus policy response

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Support for SMEs in the Covid-19 crisis: the case of the Republic of Korea

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Overview

This note examines the measures taken in Korea to contain the economic damage caused by the Covid-19 pandemic, focusing on the support provided to small and medium-sized enterprises (SMEs). We look at five broad aspects of support for SMEs: reduction of operational costs; financial support packages; tax incentives; employment support programmes; and streamlined administrative procedures. The note concludes with potential lessons for other countries, including the need to focus on liquidity in the short run, the importance of complementing tax incentives with boosts to consumer demand, and the disproportionate benefits of minor relaxations of administrative procedures for SMEs.

How did the Republic of Korea help SMEs during the coronavirus crisis?

The Korean authorities' response to the economic damage caused by Covid-19 has been multifaceted. This note summarises the main elements, focusing on five broad areas:

Reduction and deferral of operational costs. A number of actions have been taken in this area. For example, the government lowered the rents, by 25 per cent for six months, for SMEs in airport commercial facilities, and the Korea Trade Insurance Corporation lowered fees for insurance of exporting SMEs by 50 per cent throughout the country. Inter alia, exporting companies located in Special Disaster Zones, the south-eastern provinces which have had a large number (relative to population) of patients, benefit from a waiver of export insurance premiums for six months. The tax burden on businesses that had to close because a customer tested positive for the coronavirus was also reduced. For instance, the notice of imposition and collection for some local taxes has been postponed for six months, with a possible extension for another six months, while also allowing payments in instalments. Corporate taxes and VAT have also been postponed for nine months. At the same time, local governments have prepared separate additional measures to support businesses in their jurisdictions. In parallel, the financial sector will support the recovery of SMEs by extending the maturity of loans by at least six months and by offering a six-month grace period on interest payments.

Financial support packages to boost liquidity. The government has worked with the central bank, state-owned development banks and the entire financial sector to provide extra resources to SMEs facing financial difficulties due to the pandemic. A 41.8 trillion won (US$ 35.0 billion, or 2.1 per cent of GDP) fund will help stabilise the financial markets while also supplying liquidity to SMEs. SMEs are provided with quick loans through the Korea Credit Guarantee Fund and Korea Technology Finance Corporation. The government offered funds with very low interest rates to SMEs and granted full and special guarantees, i.e., guarantees provided for a higher guaranteed rate at a lower fee. In addition, full emergency guarantees were provided to small businesses with annual sales of less than 100 million won (US$ 84,000) that were either directly or indirectly hurt by the pandemic.

Tax incentives to boost demand. A government campaign is underway to promote the greater use of pre-payment and pre-purchasing in the private sector. The government has offered an income tax deduction of 80 per cent to credit card and debit card users, for the four-month period from April to July 2020.

Fiscal support programmes for maintaining employment. The government provided support for employee retention and introduced measures to resolve difficulties faced by employers and workers. These are designed to help businesses maintain their competitiveness and skilled workers so that the labour market can quickly recover once the crisis is over. Examples include the increase in funding for the Job Stability Funds Programme, which subsidises part of the employee's salary, and the introduction of the Emergency Employment Stability Subsidy, which provides 500,000 won (US$ 420) a month for three months to employees on unpaid leave from SMEs.

Streamlined and expedited administrative procedures. Fast-track procedures were applied for public procurement contracts. The government is streamlining customs clearance procedures 24 hours a day to promote exports and imports, and is running customs clearance systems for importing raw and sub-materials to help domestic manufacturers maintain normal operations. The government increased the ceiling for small private contracts that can be signed without tender procedures. The period of inspection and registration is shortened from 12 to 8 weeks. The government will reduce the bidding deposits for public purchasing and government construction by 50 per cent, lowering the burden on companies that go through the procurement process. The Korea Customs Service is expected to postpone customs duty investigations for companies that retain their employees, and for exporting/importing SMEs. The Export and Import Bank of Korea (KEXIM) introduced accelerated loan programmes of a total 200 billion won (US$ 167.4 million) for export-import SMEs which do not have a transaction history or credit rating with KEXIM. Normally these SMEs would need a qualitative evaluation, which can take some time, but financial statements are sufficient in this crisis period.

What are the main lessons learned to date?

Policy measures need to be focused on liquidity in the short term. In order to survive in the short term, the top priority of survival for SMEs is to secure liquidity. Cost reductions, payment deferrals, extensions of maturity of loans, and the development of special loan programmes are effective and complementary ways of supporting SMEs in their efforts to secure liquidity.

Tax incentives are not enough to boost demand alone. The Korean government accompanied tax incentives to SMEs with the disbursement of emergency relief funds to households to give consumers more opportunities to spend money and boost demand.

Maintaining employment is pivotal for SMEs' full recovery once the crisis is over. The government needs to help SMEs keep their competitiveness and skilled workers for long-term sustainability.

Minor changes in administrative procedures can have a powerful impact. Saving SMEs' time and resources is one of the useful policy measures for SMEs so that they can survive the economic damage caused by Covid-19.

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