

Re-guarantee Scheme for Fostering Small and Micro Enterprises in Korea

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KOREG



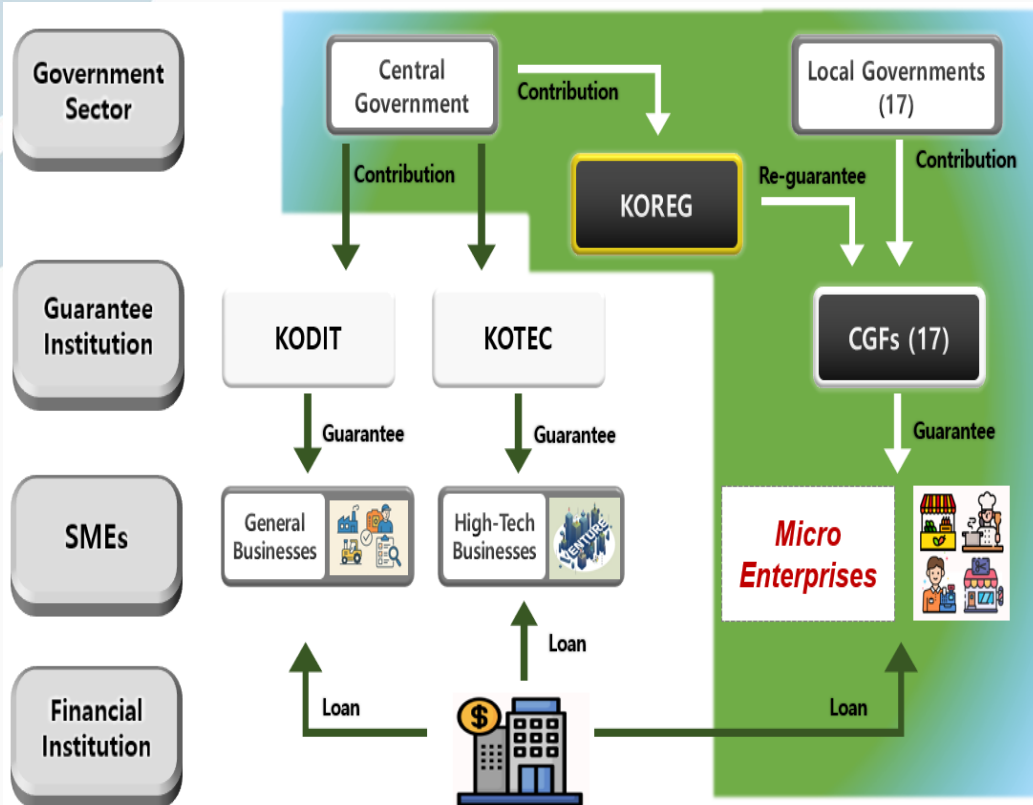


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01. Credit Guarantee and Re-guarantee institutions in Korea.



- Micro enterprises constitute a large portion.

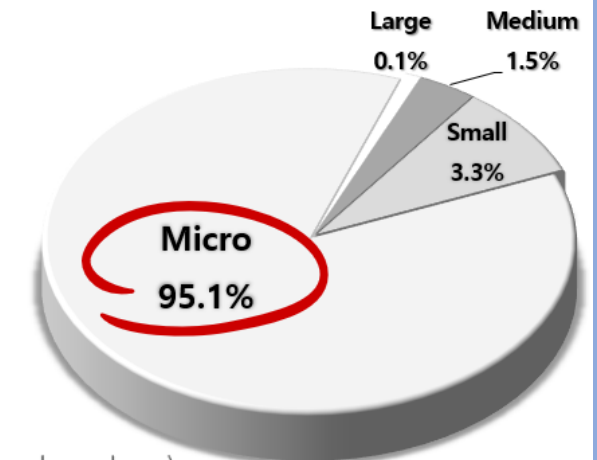
Numbers by Business size

Total 8,053,163 businesses

Large	10,437
Medium	123,647
Small	262,361
Micro	7,656,718

- Micro enterprise (Classification by number of regular employees)
 - : Mining, Manufacturing, Construction, and Transportation: Less than 10
 - : Other Industries : Less than 5

Portion by Business size



* As of August 2024

- CGFs are guarantee institutions specialized in Micro enterprises
- (Guarantee outstanding) 44.2 trillion KRW (= 27 billion Euro), 1.9 million cases
- (Portion) CGFs handle 81% of all guarantee cases, and 32% of all guarantee amounts among 3 Credit Guarantee Institutions in Korea.

02. Roles of KOREG

Overview of KOREG

- (Establishment) Aug, 2000
- (Mission) Revitalizing regional economies by providing the re-guarantee to 17 CGFs
- (Legal background) Regional Credit Guarantee Foundation Act
- (Institutional form) Non-profit public organization

Roles of KOREG

① Re-guarantee services for CGFs

- ② Operation of the Integrated Information System for CGFs
- ③ Education and training for CGFs
- ④ Research, Survey, Publication (Domestic & Foreign)
- ⑤ Development of unified operational standards for CGFs
- ⑥ Representing CGFs in external cooperation with other institutions
- ⑦ Joint projects and business improvement of CGFs

① **Role as a re-guarantee institution to support & oversee.**

②~ ⑦ **Role as a federation to support CGFs.**



03. Mechanism of Re-guarantee system.

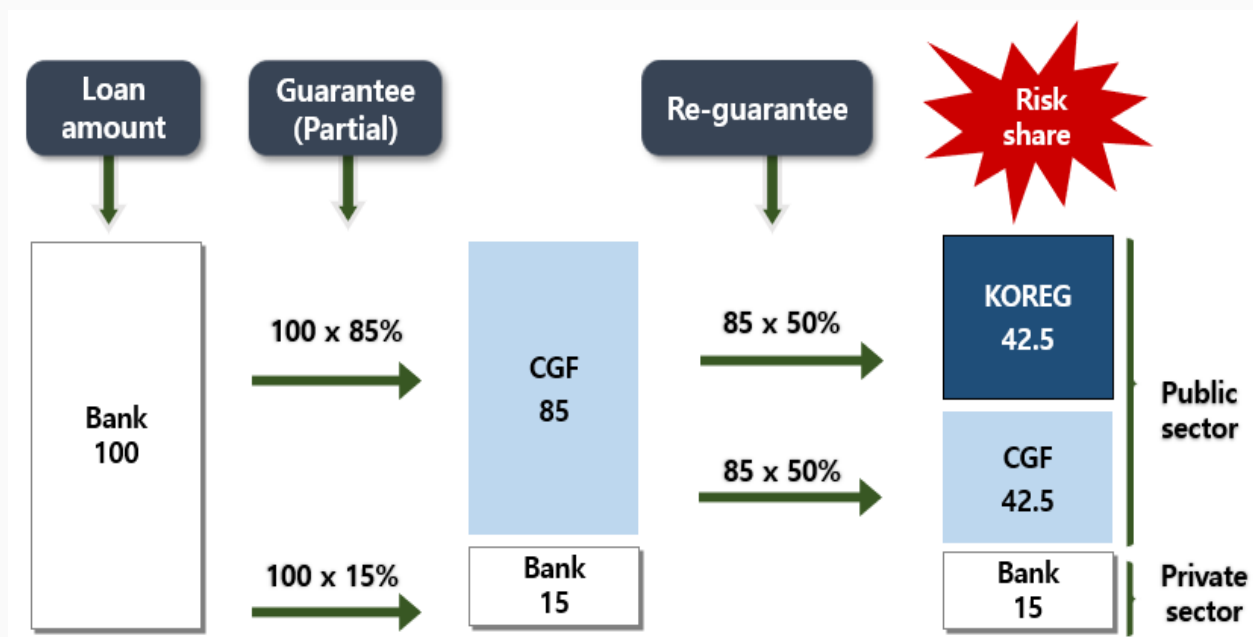


Function

- KOREG covers 30~80% of the guaranteed amount (re-guarantee ratio) that CGFs owe to banks on behalf of SMEs when those SMEs fail to repay

* Average re-guarantee ratio is 53% as of 2024.

Risk sharing



04. Functions of Re-guarantee operation.



(1) Maintaining the CGFs' Fund Soundness

- Re-guarantee protects CGFs' funds from losses, ensuring stable asset management
- The leverage ratio among CGFs varies significantly depending on the financial situation of the local government



* Jeon-Nam CGF 5.1 times ~ Seoul CGF 10.3 times

(2) Promoting Lending through Risk Diversification

- Loans to Micro enterprises have high risk and cost, discouraging financial institutions
- Re-guarantee mitigates this risk, making such lending more attractive



* High cost due to small loan amounts and low credit ratings

(3) National-level Flexibility

- The re-guarantee system enables central government oversight and strategic management of nationwide guarantee operations
- * e.g., The launch of many special guarantee programs during financial crises
- Planning and monitoring the total guarantee volume through re-guarantee ceiling



(4) Building trust with financial institutions

- Driving cooperation with financial institutions
- Re-guarantee enhances the CGFs' credibility, promoting cooperation and increasing loans to local businesses



05. Current status of Re-guarantee Systems in Major Countries.



	Country	Re-guarantee institution	Guarantee institution
Asia	South Korea	KOREG	17 CGFs
	Japan	JFC	51 CGCs
	China	National level : NFCF * National Financing Guarantee Fund Provincial / Regional Level : Every province, autonomous region, and municipality	Guarantee companies
Europe	Italy	Fondo Centrale di Garanzia (= MCC)	354 Mutual Guarantee Societies (= Confidi)
	Spain	CERSA	18 SGRs
	Portugal	Fondo de Contragarantia Mutuo	4 SGRs
	Romania	Fondul Roman De Contragarantare	FNGCIMM
	Germany	The Federal Government and Federal States	17 Guarantee Banks (one per Federal State)
EU		EIF (European Investment Fund)	Guarantee institutions in the EU with ongoing agreements

06. Comparative Analysis across Countries.



Re-guarantee Type

- Independent Re-guarantee institution (most countries) : Korea, Japan, Italy, Spain
- Government (No separate re-guarantee institution) : Germany.
 - The Federal and state government provide re-guarantees.
- Large Mutual Guarantee Institutions (limited cases) : Italy. Confidi 106
 - Some large Confidi 106 entities provide re-guarantees to smaller Confidi 112.
 - Nevertheless, most Confidi entities receive re-guarantees from the public re-guarantee institution (MCC).
- Re-guarantee institution provide re-guarantees to other re-guarantee institutions. : EIF

Re-guarantee & Guarantee Performed Together

- EIF, Italy(MCC), China : Re-guarantee institutions may also provide direct guarantees.
- (EIF) Provide re-guarantees as well as guarantees at the EU level.
- (Italy. MCC) Small confidi became too fragmented and weak -> MCC started providing direct guarantees as well as re-guarantees.

06. Comparative analysis (continued).



Funding sources for Re-guarantee

- Highly diverse : government contributions, fiscal budgets, financial institutions' contribution, self-generated income, and re-guarantee fees
- In most countries, the primary source of funding is government budget contributions.
 - (Germany, Spain, Japan) Entirely dependent on fiscal resources from central and local governments.
 - (Korea) Rely on government budgets and contributions from financial institutions.
 - (Portugal) Diver sources
 - : Contributions from public institutions, Contributions from mutual guarantee societies, Borrowing from financial institutions.
 - : Notably, guarantee institutions that benefit from re-guarantees provide annual contributions in return.

Re-guarantee Coverage Ratio

- Differences by country and guarantee type considering economic conditions and regional circumstances.
- (Range) 30 - 80%, Most countries maintained a minimum of 50% coverage, up to 80%
- (Germany) Regional differences reflecting economic condition. Eastern region 75%, Western region 65%
- (Italy) Differentiation of re-guarantee ratio in line with the regional economic conditions.
- (EIF) Portfolio-based re-guarantee with loss cap (about 10%), Liability limited to pre-set ceiling.

06. Comparative analysis (continued).



Re-guarantee Fees

- Some countries provide re-guarantees free of charge, while others impose a certain fee.
 - (Free of charge) Spain, Germany, EIF(COSME LGF)
 - (Fee charged) EIF (InnovFin SGF), Italy, Portugal, Korea, Japan
 - (Spain) Free In principle, but penalties for poorly performing guarantee institutions.
- General Trend
 - Fees are low, not enough to cover payouts.
 - (Korea) Rely on government budgets and contributions from financial institutions.
 - (Portugal) Diver sources
 - : Contributions from public institutions, Contributions from mutual guarantee societies, Borrowing from financial institutions.
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Re-guarantee Contract

- In most countries, comprehensive re-guarantee contract is applied.

Re-guarantee Contract Period

- Every year in most countries, every six month in Japan, for a fixed period of 2-3 years in the EIF.

07. Policy Recommendations for Further Development.



Global Re-guarantee Cooperation

- Regular meetings among Re-guarantee Institutions
 - MOU signed with CERSA (Spain) for Regular Meetings and
 - Annual working-level meetings will be held on a regular basis
 - Japan JFC and Italy MCC invited to join
 - Interest also from Latin American re-guarantee institutions' participation.

Deep Studies & Sharing the results at ACSIC, AECM and REGAR conference

- Re-guarantee systems are in operation across many countries.
- Closely linked with guarantee systems, but differ depending on :
 - The form of guarantee institutions (mutual, public, loan-based) and Political and administrative structures (e.g., central vs local governments, number of local authorities, and whether local-level guarantee institutions exist)
- Lack of systematic research compared to guarantee schemes
 - KOREG + research institutes → Re-guarantee Effects Report (2026)
- International Presentations
 - Share findings at ACSIC 2026 and AECM 2026 and Seek presentation opportunity at REGAR 2026 (Latin America)

08. Effects of Re-guarantee system.



Re-guarantee Environment in Korea

1. **Economic Downturn of Small Businesses due to the COVID-19 Pandemic:** Since the outbreak of the COVID-19 pandemic in 2020, small businesses have suffered severe management difficulties.
2. **Normalization of Monetary Policy:** During the middle of Covid 19, major central banks, led by the U.S., implemented aggressive quantitative easing policies. Since of end of 2022, key interest rate have risen significantly.
3. **Rising interest Rates :** The sharp rise in interest rate has worsened the economic conditions for micro and small business.
4. **Rapid Increase in Re-guarantee Balances:** Following the pandemic, demand for guarantees and re-guarantees surged :
 - Outstanding re-guarantee: Increased from 11.4 trillion KRW before Covid crisis (2019) to 23.8 tril. KRW in 2023
 - Cases of Re-guarantee supplied per year : Rose sharpiy from 210,000 in 2019 to 460,000 in 2023
5. **Objective of Re-guarantee:** Small businesses often struggle to secure financing due to information asymmetry, high transaction costs, risk perception, and lack of collateral. Credit guarantees enhance their creditworthiness, reduce lenders' default risk, and improve access to finance.

08. Effects of Re-guarantee system (Continued).



1. Micro effects on firms:

Re-guarantee led to an Increase in sales (by difference in difference analysis) of 16.5 million KRW relative to firms without re-guarantees, though there was no significant effect on employment levels.

2. Macro effects on national economy:

Re-guarantee leads to increase in GDP and employment rates, but no effects on unemployment rate

3. Panel analysis by region

Re-guarantee leads to increase in GDP and employment rate but decrease in unemployment rate.

➔ Re-guarantee system is very effective tool in the sense that it affects the sales of firms, GDP and employment rates .

In summary:

The credit guarantee and re-guarantee systems for Micro and Small business are important and highly appreciated for enhancing the access to financing.

Hopefully, this presentation about re-guarantee of the KOREG will be the moment to share the experience and know-how of re-guarantee system

08. Effects of Re-guarantee system (Continued).



1. **High Share of Employee in Micro enterprise:** 45.6%(2021), much higher than in OECD countries.
2. **Low productivity of Micro and Small Enterprise:** less than 30% of large firms.
3. **Low labor productivity of service sector:** Table: Industry Structure by Business Size(employee) in the Service Sector(2022)

	1~4	5~9	10~49	50~99	more than 100
Number of establishment	87.6	7.8	4	0.3	0.2
Employee	38.8	14.4	21.4	6.6	18.8
Value added	19.9	14.1	26.3	8.3	31.4

The most challenging problem for KOREG is to design and implement re-guarantee system in order to enhance the productivity of micro enterprise for sustainable business.



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Thank you!

