팬데믹 극복을 위한 중소기업 보상지원 및 혁신성장 정책분석

2024년 12월

중소벤처기업부
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4. 특징

○ 매년 미국 및 해외에서 온 약 15,000여 명의 대학생과 6,000여 명의 대학원생이 입학

○ 행정대학원(Maxwell School of Citizenship and Public Affairs)은 1924년에 설립, 미국에서 가장 오래된 행정대학원

- Public Administration Program은 꾸준히 전미 1위에 랭크

○ 현재 11개 단과대학과 13개 대학원으로 운영되고있으며, 행정학・신문방송학・건축학・문헌정보학이 유명

○ 현직 대통령인 조 바이든을 포함한 다수의 정치인, 방송인, 저술가, 예체능계 인사들이 다양한 분야에서 활약 중

1. Research Background

Small and medium-sized enterprises (SMEs) and Startups account for approximately 99% of all businesses, about 83% of workers, and 49% of sales(Ministry of SMEs and Startups 2021e), playing a crucial role in our livelihoods and serving as the backbone of employment and the economy. Moreover, innovative SMEs, represented by startups, venture companies, and unicorns, are leading the way in innovation, combining diverse technologies and industrial cultures that large corporations hesitate to explore. These companies are emerging as icons that will drive the future of the economy.

However, the spread of COVID-19 over the past three years has pushed SMEs and small businesses into an unprecedented crisis. Given their relatively small size and the nature of businesses like shops and restaurants, which inherently require people to gather, small businesses were particularly hard-hit.

Governments around the world allocated a significant portion of the budgets they organized during the COVID-19 period to healthcare, hygiene, and SMEs and small businesses. Common policies included providing direct cash support to businesses that were forced to close due to government quarantine measures such as restrictions on gatherings. Additionally, for businesses whose existing loans were approaching repayment periods, the government extended these deadlines and introduced interest-free or low-interest loan programs for those in need of additional funding. Measures were also taken to reduce various public utility and tax burdens and prevent rent increases, while efforts were made to support the adoption of non-face-to-face systems such as kiosks and video conferencing systems to help businesses continue operations and generate revenue.

These policies played a decisive role in addressing the immediate crisis faced by SMEs and small businesses. However, it is impossible to create a perfect system for a crisis that has never been encountered before. Just as infectious disease response laws, systems, and policies in medical institutions have been developed over time, it remains a challenge to continuously improve and build crisis response policies for SMEs and small businesses.

In reality, as of the summer of 2024, even though COVID-19 was declared over by the World Health Organization (WHO) in 2023, the difficulties faced by SMEs and Startups are still ongoing. A significant burden has arisen, especially as loans that were extended during the pandemic, as well as additional loans, have started to come due.

Furthermore, with the resurgence of COVID-19 in the summer of 2024 and the WHO declaring monkeypox, known as MPX, as a public health emergency(United Nations 2024), there is a heightened sense of vulnerability, reminding us that a new pandemic could strike SMEs and Startups at any time.

Thus, the purpose of this study is to examine and evaluate the policies for SMEs and small businesses during the COVID-19 period, identify potential government response policies for future pandemic crises, and develop proactive strategies.

To this end, the study looks at the policies that Korea and other countries put in place during the COVID-19 pandemic, examining their outcomes, limitations, and areas that need improvement. The ultimate goal is to provide response strategies for the Korean government in case a crisis similar to COVID-19 happens again.

2. Research Methodology

This study divides government policies into two main categories: crisis recovery policies and innovation growth policies.

Crisis recovery policies are measures designed to help prevent economic shocks and support SMEs and small businesses in staying operational, such as subsidies, tax reductions, and loan assistance, in response to the economic disruptions caused by the COVID-19 outbreak and related government quarantine measures.

On the other hand, innovation growth policies are meant to help promising SMEs and small businesses continue developing their technology and innovation capabilities despite the pandemic challenges. Examples include R&D support for innovative companies and startup programs that the Korean government implemented. While innovation growth policies were already in place before COVID-19, this study focuses on the changes that took place during the pandemic.

The study also compares South Korea’s response with that of the United States, Europe, and Japan. The United States passed several laws to support SMEs and small businesses, which makes their approach worth examining. Furthermore, their efforts to support innovative SMEs, especially those in Silicon Valley, are useful for comparison. In Europe, many countries, such as France and Germany, implemented similar measures like subsidies, making them a good point of comparison as well.

To carry out this study, a wide range of data was collected from government, private, and international sources. The study reviewed publications from governments and international organizations, research materials, and media reports to gather detailed information on policies. It also looked at evaluations from media, academic institutions, and private research institutes.

3. COVID-19 Crisis Response (2020-2023)

3-1. Government Quarantine Policies and Their Impact on SMEs and Startups

The Korean government implemented social distancing measures based on the Infectious Disease Control and Prevention Act to curb the spread of COVID-19. These measures imposed restrictions on daily life and socio-economic activities depending on infection rates. Key aspects included closing public facilities like entertainment venues, restaurants, hotels, hair salons, and internet cafes, as well as setting limits on business hours for some types of businesses.

An overview of the key stages of social distancing in Korea is as follows (Choi 2023):

On February 29, 2020, the first social distancing measure was introduced, which was a broad social campaign without specific criteria. As the virus spread, March 22, 2020 saw the implementation of a strengthened social distancing plan, including a 14-day quarantine for international arrivals and closure of group facilities like religious institutions, retail, indoor sports, and academies.

As the pandemic highlighted the need for more structured quarantine measures, Korea introduced a three-tier system on June 29, 2020, outlining specific actions based on the daily number of confirmed cases. In November 2020, this was adjusted to a more detailed five-tier system.

With vaccination efforts making significant progress, the country transitioned to a four-stage system on July 1, 2021, emphasizing voluntary responsibility and regional autonomy.

Finally, on April 18, 2022, social distancing measures were officially lifted.

While these quarantine measures were effective in keeping Korea's mortality rate low at 0.11%—a figure significantly better than many other countries—they had a considerable negative impact on SMEs and small businesses. Sectors like food service and retail, which heavily rely on face-to-face customer interactions, were hit the hardest.

Between early 2020 and 2021, the production index for the service industry, particularly in the accommodation and food sectors, saw a steep decline. Business sentiment in these industries also took a major hit, with the Business Sentiment Index (BSI) for accommodation and food services dropping to 70 points out of 100 in early 2020 and remaining in the 70–90 range until January 2021 (Ministry of Employment and Labor, 2020a).

On top of that, fixed costs like rent and utility bills continued to burden businesses, especially smaller ones with limited resources, as they struggled to survive extended closures. The cumulative financial strain became increasingly apparent through various indicators. For instance, the BSI for small businesses, which reflects their economic outlook, dropped sharply during the pandemic between 2020 and 2021 (Ministry of Employment and Labor, 2020a).

A survey by the Small Business Association in September 2020, during the second wave of COVID-19 and stricter social distancing measures, further highlighted the toll on small businesses. Out of 3,369 respondents, 60% (2,021) reported a sales drop of over 90%. Additionally, 72.6% (2,449 respondents) stated their losses exceeded 5 million Korean won, with 155 respondents reporting losses surpassing 50 million won (Korea Federation of Micro Enterprise, 2020).

Additionally, while some businesses continued to operate, more than half of the respondents expressed the intention to consider closing their businesses, indicating a widespread threat of mass closures and unemployment across industries. (Korea Federation of SMEs 2020)

SMEs were also significantly affected by the pandemic. According to an emergency management survey conducted by the Korea Federation of SMEs in February 2020, 70.3% of responding SMEs reported being negatively affected by the COVID-19 spread. This was approximately twice the figure compared to the first survey conducted in the same month. ((Korea Federation of SMEs 2020))

Venture capital investments also saw a decrease. In the first quarter of 2020, when the COVID-19 spread was still limited, venture investments amounted to 773 billion won, almost identical to the 778.8 billion won in the same period of 2019, showing resilience.

However, as the pandemic began to escalate in the second quarter, the investment dropped by 27.4%, from 1.2156 trillion won in the same period the previous year to 882.2 billion won. (Ministry of SMEs and Startups 2020g)

The impact on employment was also substantial. As mentioned earlier, SMEs and small businesses account for over 80% of all workers, and the COVID-19 crisis led to a significant decrease in the number of employed individuals. Looking at the year-on-year changes in employment, the number of employed persons increased by 422,000 in the fourth quarter of 2019, 568,000 in January 2020, and 492,000 in February 2020, but by March 2020, the number decreased by 195,000. This marked the first decline since January 2020, and the drop was the largest since May 2009, when it had fallen by 240,000.(Ministry of Employment and Labor 2020a)

This was the largest drop since the global financial crisis of 2009. The number of people not in the workforce also decreased by 195,000 compared to the previous year, marking the largest drop since the global financial crisis in May 2009, when it had decreased by 240,000. Additionally, in March 2020, the number of temporarily unemployed individuals surged by 1.26 million, which was comparable to the increase of 1.49 million during the 1997-1998 Asian financial crisis. Most of these temporary layoffs were due to COVID-19-related leave, annual leave, business downturns, and operational suspensions, particularly in sectors such as education, healthcare, public administration, and accommodation and food services.(Ministry of Employment and Labor 2020a)

The difficulties faced by SMEs and small businesses, as previously mentioned, were anticipated to persist for quite some time. In response, the Korean government implemented a range of strategies to reduce these challenges and soften the broader economic blow.

3-2. The Korean Government's Actions to Address COVID-19 Impacts

To tackle the issues brought about by the pandemic, SMEs and small business owners primarily called for three types of support: financial aid, assistance in retaining employees, and relief measures to lower fixed costs like rent.

According to a survey conducted by the Korea Federation of SMEs, the most needed government support was financial assistance, such as special guarantees, with 62% of respondents indicating this. This was followed by employment retention subsidies (47.3%) and tax deferral measures (45.7%). Additionally, approximately 10% of respondents pointed to diversification of import and export channels as necessary (Korea Federation of SMEs, 2020).

The demands of small business owners were not significantly different. A survey by the Korea Federation of Micro Enterprises revealed that the most burdensome issue for them was rent, which accounted for an overwhelming 69.9% of responses. Loan interest (11.8%), labor costs (8%), and taxes (5.4%) followed (Korea Federation of Micro Enterprises, 2020).

These on-the-ground opinions formed the basis for the Korean government's small business and SME support policies during the eight rounds of supplementary budgets implemented to address the pandemic.

In February 2020, during an emergency meeting on COVID-19 response, the government unveiled a plan to inject 1.9 trillion KRW into the economy. Over the course of 2020, four supplementary budgets were passed, followed by two additional rounds in both 2021 and 2022, totaling eight supplementary budgets over two years. These budgets were primarily aimed at tackling the pandemic, stabilizing people's livelihoods, and driving economic recovery, with a substantial portion allocated to supporting SMEs and small businesses.

The key measures included direct financial support, such as damage relief funds and ultra-low-interest loans, to help SMEs and small businesses survive immediate crises.

A closer look at supplementary budgets focusing on SMEs and small businesses reveals the following:

First Supplementary Budget (March 2020, 11.7 trillion KRW): Focused on financial support such as implementing special guarantees through regional credit guarantee foundations.

Third Supplementary Budget (July 2020, 35.1 trillion KRW): Included financial programs like guarantees and loans, alongside emergency employment stabilization funds targeting freelancers and self-employed individuals.

Fourth Supplementary Budget (September 2020, 12.4 trillion KRW): Introduced the first disaster relief fund for small businesses, the New Hope Fund (2.8 trillion KRW), along with budgets for small business recovery support (Choi, 2023).

Supplementary budgeting continued into 2021.

First Supplementary Budget (March 2021, 14.9 trillion KRW): Implemented measures like the Small Business Resilience Plus Program and electricity bill reductions for small businesses.

Second Supplementary Budget (July 2021, 34.9 trillion KRW): Allocated funds for programs such as the Hope Recovery Fund and compensation for losses incurred by small businesses.

In 2022, supplementary budgets persisted:

First Supplementary Budget (January 2022, 16.9 trillion KRW): Included quarantine support funds and compensation for losses suffered by small businesses.

Second Supplementary Budget (May 2022, 62 trillion KRW): Focused on loss compensation for small businesses and low-interest loans (Choi, 2023).

The government concentrated damage relief funds on small businesses rather than SMEs because small businesses, often operating B2C services such as restaurants, accommodations, and retail stores, were directly impacted by COVID-19 containment measures. In contrast, SMEs, which are often involved in B2B sectors like manufacturing, ICT, and biotechnology, were relatively stable in terms of credit ratings and financial statements. As such, SME support primarily focused on financial measures like loans and guarantees rather than direct relief funds.

3-2-1. Policies for Damage Compensation

(1) Disaster Relief Funds for Small Businesses

Between 2020 and 2022, the Korean government distributed seven rounds of disaster relief funds totaling 53.2 trillion KRW to support small businesses. These funds were designed to assist business owners directly impacted by public health measures, as well as those indirectly affected, such as businesses in the travel sector, in coping with immediate financial losses. The funding was sourced by reallocating existing projects and implementing supplementary budgets. Over time, both the range of eligible recipients and the level of financial support were expanded to ensure broader and more effective relief. The key details, based on press releases from the Ministry of SMEs and Startups, are summarized below.

(1)-a. New Hope Fund and Resilience Fund

In 2020, the government initially attempted to ease the difficulties faced by small businesses by stimulating consumption through nationwide disaster relief funds. However, as COVID-19 continued to spread and public health measures persisted, the government introduced the New Hope Fund in September 2020 as the first tailored disaster relief fund for small businesses.

The New Hope Fund had a total budget of 3.3 trillion KRW. Businesses subject to group restrictions received 2 million KRW, those under operational restrictions received 1.5 million KRW, and businesses not directly targeted by health measures but experiencing revenue losses due to COVID-19 received 1 million KRW. To expedite support, the government utilized tax data and developed an online application system, enabling quick disbursements. Within a month, 2.12 million recipients received a total of 2.3 trillion KRW. This rapid payment system became the foundation for subsequent damage compensation funds and loss compensation payments (Ministry of SMEs and Startups, 2020f).

Despite these efforts, the third wave of COVID-19 began in November 2020. With concerns over potential spikes in cases due to year-end gatherings, the government tightened public health measures. In response to the worsening business environment, the government introduced the Resilience Fund as the second disaster relief initiative. This fund, with a total budget of 4.1 trillion KRW, offered increased support by providing 3 million KRW to businesses subject to group restrictions and 2 million KRW to those facing operational limitations (Ministry of SMEs and Startups, 2021a).

(1)-b. Resilience Fund Plus and Hope Recovery Fund

Although the third wave showed signs of subsiding, the government extended restrictions, including a ban on private gatherings of five or more people, into early 2021. To provide more substantial support for small businesses affected by continued measures, the government disbursed 6.7 trillion KRW under the Resilience Fund Plus. Support amounts were increased, and new criteria, such as the duration of public health measures (less than or more than six weeks), were added to differentiate payments (Ministry of SMEs and Startups, 2021e).

As discussions on supporting small businesses progressed, attention shifted toward institutionalizing loss compensation. During the legislative process, small business groups advocated for retroactive application of the system to cover losses from early 2020, while the government argued that previous relief funds effectively served as compensation. Ultimately, the National Assembly avoided explicitly mandating retroactive measures but included provisions to ensure adequate recovery support. In response, the government introduced the Hope Recovery Fund in August 2021, two months before the loss compensation system was set to launch. With a budget of 4.2 trillion KRW, this fund significantly increased support amounts, offering up to 20 million KRW by incorporating revenue criteria into the existing framework (Ministry of SMEs and Startups, 2021f).

(1)-c. First and Second Quarantine Support Funds and Loss Compensation Funds

The spread of COVID-19 eased in June 2021, raising expectations for the end of public health measures. However, a resurgence by the year’s end necessitated their continuation. Although the loss compensation system began in October 2021, compensations for Q4 losses required until January 2022 for implementation. To address immediate needs, the government announced the First Quarantine Support Fund in December 2021, providing 1 million KRW per business. Tax data was used to prioritize payments to businesses with existing records, with new businesses established in 2021 receiving funds in January 2022. External feedback that 1 million KRW was insufficient led to a Second Quarantine Support Fund, which increased payments to 3 million KRW. Businesses that received the first round were given an additional 2 million KRW (Ministry of SMEs and Startups, 2022c).

After the presidential election in April 2022, the new Yoon Suk-yeol administration identified the complete recovery of small businesses from COVID-19 impacts as a priority. As its first policy, the administration launched the Loss Compensation Fund, the seventh disaster relief fund, amounting to 23 trillion KRW. This fund aimed to fully compensate for the accumulated direct and indirect losses endured by small businesses over two years of public health measures. The amount corresponded to approximately 76% of the total 30.2 trillion KRW previously allocated across six rounds of disaster relief (Ministry of SMEs and Startups, 2022d).

(2) Institutionalization of Loss Compensation for Small Business Owners

While the disaster relief funds for small business owners played a crucial role in quickly addressing their immediate needs, they faced criticism for their standardized approach to support distribution. Although the government attempted to tailor the amounts in later rounds of funding, the differentiation was limited to broad industry categories and fell short of addressing the unique losses experienced by individual businesses. Moreover, the evolving nature of the COVID-19 situation necessitated frequent adjustments to the eligibility criteria and details of the relief funds, highlighting the need for a more systematic and individualized compensation framework.

In response, the government began discussions in January 2021 to institutionalize a loss compensation system that would provide predictable compensation for small business owners. The legislation was enacted in July of the same year, and starting in October, small business owners who incurred losses due to government-imposed public health measures—such as bans on gatherings and restrictions on business hours under the Infectious Disease Control and Prevention Act—began to receive tailored compensation proportional to the extent of their losses (Ministry of SMEs and Startups 2021g). The following is an excerpt from press releases issued by the Ministry of SMEs and Startups.

Under the “Act on the Protection and Support of Small Businesses“ and its Enforcement Decree, the scope of loss compensation is limited to government-imposed public health measures, specifically bans on gatherings and restrictions on business hours. These measures, as outlined in Article 49, Paragraph 1, Subparagraph 2 of the Infectious Disease Control and Prevention Act, prohibit gatherings within business premises (bans on gatherings) or restrict operating hours (restrictions on business hours), resulting in significant losses for businesses. This aligns with Article 23, Paragraph 3 of the Constitution, which states, “The expropriation, use, or restriction of property rights for public necessity and the compensation thereof shall be governed by law, and just compensation must be provided.” It also clarifies that the loss-compensation measures were directly caused by government public health actions under the Infectious Disease Control and Prevention Act.

The calculation of compensation, the timing of payments, and other specifics were overseen by a deliberation committee composed of government officials, private sector experts, and representatives from small business organizations. This diverse composition aimed to ensure fairness and objectivity in decision-making.

Qualifications for Appointed Members

1. Heads of specialized institutions or organizations in the fields of loss compensation or public health measures. 2. Individuals who have served as professors, associate professors, or assistant professors in the fields of loss compensation or public health measures for at least 10 years. 3. Individuals who have served as judges, prosecutors, military judicial officers, or lawyers for at least 10 years. 4. Individuals affiliated with organizations related to small business owners and recognized as representative figures in the small business sector. 5. Individuals deemed by the Minister of SMEs and Startups to possess extensive knowledge and experience in the fields of loss compensation, public health measures, or small business-related matters.

On October 8, 2021, the committee established a formula for determining compensation. It was calculated by multiplying the daily average operating profit loss by the number of days public health measures were in effect, then applying an adjustment rate. This formula was designed to accurately reflect the unique losses faced by each business while considering the varying durations of restrictions across industries. The adjustment rate was set at 80%, acknowledging the widespread impact of COVID-19 on all sectors. To prevent excessive payouts, a cap of 100 million KRW per quarter was implemented.

However, the loss compensation system faced a limitation in that compensation amounts, calculated based on individual business sales data, could only be paid after the end of each quarter. This meant businesses could not receive compensation during the implementation of public health measures. To address this, the government introduced the Advance Payment System for Small Business Loss Compensation in January 2022. Under this system, businesses in urgent need of compensation could receive an advance payment of 5 million KRW at an ultra-low interest rate of around 1%, with the amount deducted from the final compensation determined later.

Unlike the seven rounds of disaster relief funds introduced earlier, which required separate budget allocations based on government policy decisions, the loss compensation system offered more predictability through its legal framework. This provided a stable foundation for business operations. Additionally, it holds historical importance as the world's first law to institutionalize loss compensation for small businesses impacted by public health measures.

In contrast, countries with similar frameworks to South Korea's Infectious Disease Control and Prevention Act, such as Germany and Japan, do not recognize loss compensation for small businesses or SMEs affected by public health measures. France, meanwhile, has legislated a social disaster fund rather than a loss compensation system. (Kim, 2022)

Thus, South Korea's legislative approach, which provides quarterly compensation for losses suffered by small businesses, can be regarded as a progressive legal precedent.

(3) Extension of Maturity, Payment Deferrals, and Additional Loan Supply for Existing Loans

In response to the COVID-19 crisis, which caused businesses to shut down or suffer significant sales losses, the government focused on alleviating the financial burden of interest payments while providing working capital to help businesses survive during the pandemic.
First, the government coordinated with all financial institutions to extend the maturity of loans and guarantees held by SMEs and small businesses by at least six months, as well as to defer interest payments, for loans maturing by September 30, 2020. The COVID-19

maturity extension and payment deferral system was implemented in six-month intervals. As the impact of the pandemic continued, the system was extended four times, resulting in a total of 2.5 years of support. By the end of June 2022, loans totaling 362.4 trillion KRW were provided under this program. (Financial Services Commission 2022b)

To address the urgent financial difficulties faced by small businesses due to COVID-19, the government introduced a policy finance program in April 2020. The main goal was to offer additional low-interest loans, around 1%, through policy financial institutions or provide interest rate reductions of about 1% for loans from the Export-Import Bank of Korea and the Korea Development Bank. The government also reduced the guarantee fees for these loans. As the pandemic continued into the second half of 2020, the government rolled out various financial support programs, with the total support amount reaching approximately 30 trillion KRW by April 2022 (Financial Services Commission, 2020a).

In addition, policy financial institutions such as guarantee institutions and the Korea SMEs and Startups Agency operated various individual financial programs. Below are the major financial support measures announced by the government during the initial phase of the COVID-19 pandemic in 2020.

(4) Financial Market Stabilization Measures Related to COVID-19 in March 2020

As COVID-19 showed signs of spreading beyond localized damage and affecting the entire country in early 2020, the South Korean government, led by the Financial Services Commission, announced measures in March to support the economy. Among these measures, a total of 29.2 trillion KRW in financial programs were announced to support the urgent financial needs of SMEs and small businesses. (Financial Services Commission 2020a). The following is an excerpt from the press release distributed by the Financial Services Commission.

The first measure was to provide a new fund of 12 trillion KRW to small businesses at an ultra-low interest rate of 1.5%. The funding was structured as follows: 2.7 trillion KRW through the Small Business Market Promotion Agency, 5.8 trillion KRW through the Korea Development Bank, and 3.5 trillion KRW in interest subsidies for loans from commercial banks.

In addition, 5.5 trillion KRW in special guarantees were provided for both SMEs and small businesses. This funding was arranged through additional supplementary budget resources. The Korea Technology Finance Corporation and the Korea Credit Guarantee Fund primarily provided guarantees for medium- and high-credit SMEs, with 0.9 trillion KRW and 1 trillion KRW respectively. Meanwhile, the regional credit guarantee foundations supported small businesses with medium to low credit scores, providing 3.6 trillion KRW in special guarantees. The guarantee fees were reduced by approximately 0.2% to lessen the burden on SMEs and small businesses. The guarantee ratio was also increased to 95% or 100%, encouraging commercial banks to extend loans more proactively by providing government-backed guarantees, even as banks were initially hesitant to lend.

Additionally, the government provided 3 trillion KRW in full guarantees (100% guarantee ratio) for small businesses directly or indirectly affected by the government’s gathering bans and business hour restrictions.

Furthermore, the government allocated 2 trillion KRW to purchase delinquent small business debts and engage in debt restructuring, and 6.7 trillion KRW was set aside for a corporate bond issuance support program (P-CBO) to enhance the credit of companies issuing bonds due to COVID-19 impacts.

After the announcement of these measures, the government realized that the demand for new funds was higher than expected, so it expanded the previously announced 12 trillion KRW in new funds for small businesses to 16.4 trillion KRW. However, even this amount was almost exhausted, with 14.8 trillion KRW being disbursed just five months later in early September 2020 (according to the Financial Services Commission on September 10). In response, the government proactively introduced a second financial support program of 10 trillion KRW in May 2020. (Financial Services Commission 2020c)

Initially, the program was designed to prevent a single small business from accessing both funding sources simultaneously, ensuring that as many small businesses as possible could receive support. However, as the COVID-19 crisis persisted and its impact concentrated on industries subject to quarantine measures, the government revised the rules to allow businesses to access both funding programs. Furthermore, the maximum support limit was increased from 10 million KRW to 20 million KRW (Financial Services Commission, 2020c).

As concerns over liquidity shortages grew due to the financial instability caused by COVID-19 and the declining creditworthiness of mid-sized companies issuing corporate bonds, the government announced the establishment of a 20 trillion KRW program in July 2020 to buy low-credit corporate bonds and commercial paper (CP). The funding for the Special Purpose Vehicle (SPV) to purchase these bonds and CPs was sourced from the government, the Bank of Korea, and the Korea Development Bank. The SPV would directly purchase corporate bonds and CPs from general companies, aiming to resolve liquidity issues. The initial purchase period was set for six months, with an initial purchase scale of 10 trillion KRW, later extended for another six months and expanded to 20 trillion KRW. (Financial Services Commission 2020d)

(5) Special Employment Stability Measures in April 2020

As the employment crisis became a reality starting in March 2020, the South Korean government, with the Ministry of Employment and Labor at the center, established employment support measures in April 2020. The following is an excerpt from the press release distributed by the Ministry of Employment and Labor. (Ministry of Employment and Labor 2020a)

First, the list of Special Employment Support Industries was expanded. As soon as COVID-19 spread, industries such as travel, tourism accommodation, tourism transportation, performance, and shipbuilding were quickly designated, and additional industries such as air-ground services, duty-free shops, exhibition and international conference services, and airport bus services were added. This expansion resulted in additional support for 200,000 people.

A new program was also introduced to support workers in these special industries who went on unpaid leave, providing 500,000 KRW per month for up to three months.

In addition, a loan program was introduced to assist companies that were unable to pay the 70% of average wages as furlough allowances.

To alleviate the livelihood burden of the unemployed and support job-seeking activities, the government expanded unemployment benefits to 3.4 trillion KRW. It also increased the number of beneficiaries for programs like the "Employment Success Package" and the "Youth Job Seeker Support Fund," while also expanding vocational training for the unemployed. Additionally, the scope of livelihood support was extended to include unpaid leave workers and freelancers, who had previously been excluded.

The most direct and representative measure was the establishment of the 1.5 trillion KRW COVID-19 Emergency Employment Stability Support Fund. This fund provided 500,000 KRW per month for up to three months to small businesses, freelancers, and workplaces that experienced a decrease in income and sales due to COVID-19. The support targets included freelancers and small businesses whose income and sales declined in March and April 2020, as well as workers who were on unpaid leave between March and May 2020. This measure notably included small businesses, which had previously been excluded from the Ministry of Employment and Labor's COVID-19 employment stability support. However, to maximize the support effect within limited budgets, the program was limited to those with an annual income of 70 million KRW or less or annual sales of 200 million KRW or less, with a reduction rate of 25–50%. (Ministry of Employment and Labor 2020b)

The policy officially began on June 1, a month after the announcement in April. As with the small business disaster support fund, an online and offline application system was established.

Given the significant increase in workload at regional labor offices due to COVID-19, the Ministry of Employment and Labor set up 8 dedicated centers in Seoul, Sejong, and Busan to process the Emergency Employment Stability Support Fund and hired 1,300 temporary workers to conduct eligibility reviews.

The first round of Emergency Employment Stability Support Fund applications started on June 1, 2020, and within a month, over 900,000 applications were received.

However, there were criticisms regarding delays in fund distribution due to the time required to review applications and verify documents. In fact, over 80% of applications required additional documentation or corrections, and the variety of required documents caused delays in processing and fund distribution. To address this, the Ministry of Employment and Labor organized a focused processing period from June 30 to handle the review process with full participation from both headquarters and regional offices. (Ministry of Employment and Labor 2020c)

The Ministry of Employment and Labor provided a total of six rounds of Emergency Employment Stability Support until 2022, starting with the first round. However, in order to avoid overlapping support with the small business disaster support fund and the loss compensation system, the government made efforts to provide support to as many people as possible.

The target beneficiaries of the sixth round of support were primarily freelancers and self-employed individuals who had not received the previous Emergency Employment Stability Support. Examples include insurance planners, private tutors, delivery drivers, loan brokers, credit card sales agents, door-to-door salespeople, rental product inspectors, home appliance installation and delivery workers, after-school instructors, construction machine operators, truck owners, designated drivers, and express delivery workers. (Ministry of Employment and Labor 2022)

For the special workers and freelancers who had already received the Emergency Employment Stability Support in rounds 1–5, a rapid support of 2 million KRW was provided without additional income verification. For those who had not previously received the support, new applications were accepted, and after income verification, 2 million KRW was provided.

If support funds were received through fraudulent methods, the amount would be recovered, and a penalty up to five times the amount would be imposed. Measures were also introduced to prevent fraudulent claims, such as reporting cases of document forgery or alteration.

(6) Exemption from Various Public Charges and Rent Burden Relief for Cost Reduction

To alleviate the financial burden on small businesses, the government held the 19th Emergency Economic Central Countermeasure Headquarters meeting and the 219th Foreign Economic Ministers' Meeting in November 2020, during which they announced measures to reduce the rent burden for small businesses. (Ministry of Economy and Finance 2020) The following is an excerpt from the press release distributed by the Ministry of Economy and Finance.

First, for private buildings, landlords who reduced commercial rents (referred to as “good landlords“) were given a tax credit of up to 70% of the rent reduction. In 2020, a total of 181,000 tenants benefited from a rent reduction of 473.4 billion KRW. For government buildings, the rent rate was reduced from 3% to 1% for central government buildings, and from 5% to 1% for local government buildings. In cases where facilities were closed or temporarily suspended due to COVID-19, the usage fees were waived. For public institutions, rents were reduced by 50%, and late rent payment interest was reduced from 10–25% to 5%.

In addition, tax deferrals were implemented. For businesses with fewer than 30 full-time employees, deferral of payments for employment and industrial accident insurance was granted for 3 months. National pension contributions were waived for members whose income had decreased. For small businesses, the government also allowed a 3-month deferral of electricity and gas payments, and if requested, a 6-month installment plan was allowed.

To ease the tax burden on small businesses and self-employed individuals, the government made the simplified VAT system more accessible. The income limit for using this system was increased from 48 million KRW in annual sales to 80 million KRW. Similarly, the threshold for VAT exemption was raised from 30 million KRW to 48 million KRW.

(7) Hosting Non-Face-to-Face Sales Promotion Events to Boost Spending To help revive consumer confidence, which had been affected by COVID-19, and increase sales for small businesses, the

government introduced several measures.

One of the key initiatives was expanding the Local Love Onnuri Gift Certificate program. The target for issuing these certificates was raised from 2 trillion KRW in 2019 to 4 trillion KRW in 2020, with a goal of 3.5 trillion KRW in 2021. The discount rate for these certificates was also increased from 5% to 10%, doubling the original discount (Kim et al., 2022). In addition, large-scale events like the Korea Together Sale and Christmas Market were held to encourage spending, with small business products being highlighted at these events.

Korea Together Sale

Additionally, the Korea Together Sale was held as a large-scale promotional event involving the entire nation. This event stood out from previous events like Korea Festa, as it focused primarily on the products of small and medium-sized enterprises (SMEs) and Startups owners.

The event took place from June 26 to July 12, 2020. Given the difficulty of visiting physical locations due to COVID-19, the event was held both in person at Seoul's Sungnyemun and the KSPO Dome in Olympic Park for three days, as well as online, mainly through non-face-to-face platforms like live commerce (Ministry of SMEs and Startups 2020c).

Live commerce became a great way to promote products from small businesses that were not well-known, as it allowed buyers and sellers to interact in real-time online.

The products sold included food, daily necessities, fashion, beauty, and electronics. In addition to the event's own platform, private platforms like Naver were also used to reach a larger audience.

The event's energy was boosted by the participation of government officials and celebrities, who hosted different product categories. For example, the Minister of Oceans and Fisheries promoted seafood products. Efforts were also made to feature regional specialties, helping to spread the promotion beyond just the capital area and into other regions.

Christmas Market

Through government policies such as the Korea Together Sale (June) and Korea Sale Festa (KSF, November), consumer sentiment gradually recovered, increasing from 79 points in September to 98 points in November. However, in December 2020, the resurgence of COVID-19 exacerbated the difficulties faced by small businesses and SMEs. To further stimulate domestic demand and expand consumer sentiment during the year-end, the Ministry of SMEs and Startups organized the Christmas Market event (Ministry of SMEs and Startups 2020i). The following is an excerpt from the Ministry of SMEs and Startups blog.

The event was a large-scale discount and promotional campaign aimed at the Christmas shopping week, involving over 30 online platforms, 300 traditional markets, around 2,500 neighborhood supermarkets, and approximately 12,000 small businesses and SMEs.

The Christmas Market (K-MAS) Live Market was primarily operated online and non-face-to-face. To build excitement and engage the public, 101 products suitable for Christmas gifts (such as food, household items, party supplies, and other Christmas-themed products) were selected through an online voting system, receiving 87,000 votes and product reviews.

Additionally, a Christmas Special Event was organized in collaboration with 30 e-commerce startups, major online malls, and home shopping channels, featuring various promotional activities, including discounts of up to 40%.

To specifically help small businesses facing challenges with offline sales, seven private O2O (online-to-offline) advertising platforms joined in. They offered focused support, including covering delivery fees, providing coupons, and running promotions for about 3,000 businesses.

Along with special discounts (10%, up to 700,000 KRW) for Onnuri gift certificates, live commerce broadcasts were held at 300 traditional markets nationwide, featuring neighborhood market shopping services, and events such as free delivery and giveaways.

Moreover, around 2,500 neighborhood markets and convenience stores conducted a joint sale, offering up to 50% discounts on agricultural products and manufactured goods through direct transactions with producers.

3-2-2. Laying the Foundation for Innovative Growth

Efforts to turn the COVID-19 crisis into a new opportunity continued. In particular, as the non-face-to-face industry gained significant global attention, the government focused on ensuring that SMEs and small businesses would not fall behind but instead be supported to stay ahead of the trend.

(1) Non-Face-to-Face Transformation of Government Support Programs

The government worked to shift support programs to non-face-to-face formats. Given the challenges of on-site applications due to COVID-19, online application procedures were expanded. Furthermore, annual policy briefings for SMEs and small businesses were held online, with no separate application required. These briefings were streamed on platforms like YouTube, Facebook, and Naver TV to make them more accessible (Ministry of SMEs and Startups 2021b).

The online comprehensive briefing explained key support programs in seven areas—entrepreneurship and ventures, exports, sales channels, R&D, policy funding, technology guarantees, and small businesses—to SMEs and small businesses nationwide. It covered changing systems, how to participate in programs, frequently asked questions, and more. For business owners who could not attend the briefing on the day it was held, the presentation videos were uploaded to the government’s YouTube channel after the event so that they could access the information anytime. However, for policy recipients who were not familiar with using the internet, such as elderly small business owners and traditional market vendors, offline briefings were held, taking local social distancing levels into account (Ministry of SMEs and Startups 2021b).

(2) Focused Development of Non-Face-to-Face Industries

Launch of the K-Non-Face-to-Face Global Innovation Venture 100 Project

In 2020, the Ministry of SMEs and Startups (Minister Park Young-sun, hereinafter referred to as the Ministry of SMEs and Startups) launched the "K-Non-Face-to-Face Global Innovation Venture 100 Project" to foster non-face-to-face startups and ventures. The policy consisted of comprehensive measures across all sectors, including finance, exports, public procurement, and voucher issuance (Ministry of SMEs and Startups 2020h). The following is based on a press release from the Ministry of SMEs and Startups.

First, the "Non-Face-to-Face Startup 1000 Project" was launched to discover and nurture 1,000 promising startups in the non-face-to-face industry sector. This initiative targeted sectors such as bio-medical, which have gained attention due to COVID-19, as well as education, culture and tourism, urban housing, logistics and distribution, agricultural products, marine and fisheries, and infrastructure technology, where non-face-to-face technologies are likely to be actively adopted. The selected companies were provided with up to 100 million KRW in initial funding.

A plan was also set in place to invest and lend up to 9 trillion KRW by 2025. The funds were dedicated to non-face-to-face startups and ventures, consisting of 5.5 trillion KRW in non-face-to-face guarantees, 3 trillion KRW for the "Smart Korea Fund" in the non-face-to-face sector, and 500 billion KRW in policy loans.

Additionally, non-face-to-face service vouchers were provided to help non-face-to-face startups and ventures grow (KTV 2020).

Since the COVID-19 pandemic, business models rapidly shifted, including remote work to reduce office crowding and online video conferencing for meetings with internal staff or buyers. However, SMEs, due to limited capital and awareness, faced difficulties in actively responding to this transition to non-face-to-face business.

To address this, non-face-to-face business vouchers were provided to help SMEs work remotely and from home without incurring additional costs. The program supported 90% of service costs, up to 4 million KRW per company. For the first budget in 2020, 368 service providers and 80,000 demand companies were selected, and 288 billion KRW was invested. In 2021, 216 billion KRW was allocated, and 41 billion KRW was set aside for 2022 (Back 2022).

All SMEs, except those with special reasons such as unpaid national taxes, were eligible. A negative selection method was used to ensure quick support, meaning that only those who did not meet the exclusion criteria were selected. 613 companies that supplied software applied. Since these companies needed to provide reliable services to demand companies, they were selected through a three-step evaluation process: initial basic requirements check, in-depth expert evaluation, and a final evaluation by demand-side users (KTV 2020).
A dedicated platform, the "K-Non-Face-to-Face Voucher Platform," was also created to make it easier for demand companies and suppliers to connect. Through the platform, both parties could complete the entire process online, including business participation application, service exploration, contract signing, payment, voucher usage, and post-service evaluations (KTV 2020).

One of the challenges faced by companies participating in government support programs was the need to submit proof of expenses whenever they used or completed using government support funds. Submitting proof documents and undergoing post-checks was burdensome for companies. However, through this platform, the entire process of submitting proof documents and verifying them has been fully automated (KTV 2020).

The non-face-to-face voucher project improved corporate productivity and competitiveness by supporting digital transformation, while also promoting the growth of software supply companies that help in this transition. Additionally, through the "K-Non-Face-to-Face Voucher Platform," information about the non-face-to-face market and the companies participating in it was accumulated. This big data was then used to design new policies or improve existing initiatives (KTV 2020).

A system was also introduced to encourage public institutions to actively purchase new products from non-face-to-face startups and ventures. Specifically, in order to promote public procurement for remote education startups and ventures, a dedicated "EduTech" support page was set up in the school market. Long-term, an online space was being created within the ongoing "K-EduTech Integrated Platform" where startups and ventures could easily register their services.

Efforts to promote attracting foreign investment were also included. Support for attracting foreign investment and assisting with overseas expansion for non-face-to-face startups and ventures was undertaken. A "Global Venture Capital Fund" worth 200 billion KRW was created, and online overseas company presentations and overseas expansion delegations were expanded.

Additionally, to support overseas expansion, "K-Startup Centers (KSC)" were established to provide overseas incubation, and the number of overseas online stores such as Amazon, eBay, and Shopee was increased to help secure overseas distribution channels for promising non-face-to-face products. Non-face-to-face export consultations and online exhibitions were also strengthened to support exports in the digital content sector.

Plans were also made to continue improving laws and systems related to non-face-to-face industries. To systematically foster non-face-to-face ventures, the establishment of a “Non-Face-to-Face SME Development Act“ was being considered, and the Ministry of SMEs and Startups, along with the Statistics Korea and other related ministries, planned to develop statistics for non-face-to-face SMEs. Efforts were also planned to identify and improve on-site regulations in the non-face-to-face sector.

Furthermore, existing entrepreneurship policies were also transitioned to focus on non-face-to-face support.

One example is the “Pre-Startup Package“ program (Ministry of SMEs and Startups 2020b). The following is a summary based on a press release from the Ministry of SMEs and Startups.

This program provides up to 100 million KRW and entrepreneurship education for promising pre-startups. The program was transformed to focus on discovering and nurturing promising non-face-to-face startups for the post-COVID era. In particular, the Ministry of SMEs and Startups and seven other departments with expertise in non-face-to-face industries collaborated for the first time to improve the program’s effectiveness in identifying and supporting non-face-to-face startups.

Through this collaboration, each department recommended relevant specialized organizations to the Ministry of SMEs and Startups, which designated them as the main organizations for the project. The departments selected startups that were aligned with their respective policy directions and provided support for commercialization. This collaborative system helped to identify promising startups with potential for global growth more effectively.

Additionally, the “K-Startup Grand Challenge“ aimed at discovering foreign startup companies with outstanding business ideas and attracting them to Korea to develop the country as the global startup hub. This program was conducted non-face-to-face by connecting Korean judges with overseas participants in real-time. The selected companies were awarded up to 136 million KRW in prize money, along with monthly living allowances of 350,000-500,000 KRW, incubation facilities, help desks, and additional support for visa acquisition and company registration (Ministry of SMEs and Startups 2020d).

(3) Expansion of the Role of the Fund-of-Funds

In response to the investment sentiment downturn caused by COVID-19, the Fund-of-Funds took a more proactive role to serve as a catalyst. In April 2020, eight ministries—Ministry of SMEs and Startups, Ministry of Culture, Sports and Tourism, Ministry of Science and ICT, Ministry of Environment, Ministry of Education, Ministry of Land, Infrastructure and Transport, Ministry of Oceans and Fisheries, and Ministry of Employment and Labor—selected the first round of investment funds. The Fund-of-Funds invested 1.0841 trillion KRW to select 81 venture funds worth 2.4798 trillion KRW. This figure represents 112% of the initial target of 2.2225 trillion KRW and already exceeds the 2.4130 trillion KRW selected through the Fund-of-Funds' investment in the previous year. Among these, four funds were large to medium-sized funds, with more than 100 billion KRW in funding, capable of providing large-scale funds in the follow-up growth stages after the startup phase. A total of 586 billion KRW was raised (Ministry of SMEs and Startups 2020a).

To prevent companies from facing liquidity crises due to investment delays caused by COVID-19, a new venture investment promotion system was introduced. Under this system, if a fund deploys more than 20% of its raised capital by the end of the year, the Fund-of-Funds will prioritize covering investment losses and provide incentives such as an additional 10% of the fund's profits to the fund management companies and preferential management fees. Fund managers can also use the “Fast-Closing“ method, which allows them to start a fund and begin investing with only 70% of the fund's target amount secured, compared to the previous requirement of 100% fund closure. The remaining 30% must be secured within three months (Ministry of SMEs and Startups 2020a).

In 2021, the Fund-of-Funds' first round of investment led to the creation of venture funds worth 900 billion KRW in just the first quarter (Ministry of SMEs and Startups 2021d). Notably, the Fund-of-Funds investment initiative this year was expedited to maintain the largest venture investment boom in history. First, in December of the previous year, the Ministry of SMEs and Startups announced its 7.5 trillion KRW fund allocation for 2021, which was about two months earlier than in 2020 (Ministry of SMEs and Startups 2021e).

(4) Exports

Efforts to open blocked export channels due to COVID-19 continued. Below is a summary of the Ministry of SMEs and Startups' press release (Ministry of SMEs and Startups 2020b).

First, the online export joint logistics program aimed to consolidate the export volumes of small and medium-sized enterprises (SMEs) engaged in online exports, reducing shipping costs and providing support for using domestic and overseas logistics warehouses at affordable prices. In 2020, this program supported about 1,300 companies with a limit of 15 million KRW per company.

In particular, starting in May 2020, the "Air Freight Subsidy Program" was launched to support companies struggling with rising air freight costs and delivery delays due to COVID-19. Despite the short two-week recruitment period, more than 1,400 companies applied, highlighting the significant burden on businesses regarding export logistics.

In response, the Ministry of SMEs and Startups launched a second round of recruitment in July to allow more export SMEs to receive joint logistics support.

The "Air Freight Subsidy Program" was open to all SMEs under the Framework Act on SMEs (with some industries, such as gambling-related sectors, excluded).

The main support items included: First, discounts of more than 50% on shipping costs for online export goods. Second, subsidies for the use of up to five domestic and international logistics warehouses (choosing from seven domestic and 28 international logistics hubs across 14 countries), fulfillment, export/import declaration agency fees, etc. (70% of actual costs, with a maximum limit of 15 million KRW). Finally, companies were encouraged to participate in joint marketing promotions with global e-commerce platforms, not just for support, but also to help fundamentally expand sales channels for greater revenue growth.

3-3. Achievements and Limitations

3-3-1. Achievements

Robust Exports

Despite the COVID-19 situation, exports from small and medium-sized enterprises (SMEs) reached an all-time high. In 2021, exports totaled 117.3 billion USD, surpassing the previous record of 105.2 billion USD set in 2018 under the 2010 statistical framework. Additionally, the number of companies achieving exports of 10 million USD reached a record high of 2,294. Moreover, the number of companies reaching 50 million USD in exports was 250, and 66 companies reached 100 million USD, all of which were the highest in history. However, the total number of exporting SMEs was 92,347, a slight decrease of 2.7% from 94,900 in 2020. Online exports by SMEs also grew by 91.7% year-on-year, reaching 670 million USD. The number of online export companies also grew significantly by 92.7%, reaching 3,148 companies (Ministry of SMEs and Startups 2022b).

Prevention of Rapid Business Closures

According to the National Tax Service's statistics on business closures,

the number of business closures in 2020, when COVID-19 began, was 895,379, a 2.9% decrease compared to the previous year (National Tax Service, n.d.).
One of the greatest concerns due to the COVID-19 pandemic was the rapid closure of small and medium-sized enterprises and self-employed businesses. However, the government's swift actions were effective in mitigating the severe collapse of these businesses, which are the backbone of the economy.

Venture Investment's Continued High Heat

Despite the spread of COVID-19, securing the continuity of venture investment was a significant achievement. In 2020, venture investments amounted to 4.3 trillion KRW, which was an increase of 268 billion KRW compared to 4.2 trillion KRW in 2019, setting an all-time high (Ministry of SMEs and Startups 2021c). Below is a summary of the Ministry of SMEs and Startups' press release.

The number of investments in 2020 (4,231 cases) and the number of invested companies (2,130 companies) also both reached record highs, surpassing 4,000 cases and 2,000 companies, respectively.

In the first and second quarters, the impact of COVID-19 clearly dampened investment sentiment. Looking at the quarterly data, the second quarter saw a significant decline in investments compared to the same period in 2019 (a decrease of 3.3 trillion KRW, -27.4%).

However, the previously sluggish investment performance began to recover starting in the third quarter, and in the fourth quarter, 1.41 trillion KRW was invested (an increase of 253.3 billion KRW compared to Q4 of 2019). Investment started to increase from the third quarter, showing an increase of 112.7 billion KRW (+10.0%) compared to Q3 of 2019. This recovery in investment continued into the fourth quarter, which saw an increase of 253.3 billion KRW (+21.9%) compared to Q4 of 2019. As a result, the investment increase of 366 billion KRW in the second half of 2020 (Q3-Q4) exceeded the decrease of 339.2 billion KRW in the first half (Q1-Q2), and the total venture investment for 2020 surpassed the 2019 performance.

In 2020, industries that had been highlighted during the COVID-19 crisis, including bio/medical, information and communication technology (ICT), and industries related to materials, parts, and equipment (electricity, machinery, equipment, chemicals, materials, ICT manufacturing), were identified as the main drivers of the growth in venture investment.

Notably, the bio/medical sector, which had seen a decrease of 124.9 billion KRW compared to 2019 in the first three quarters (a total of 773.3 billion KRW), experienced a significant increase in the fourth quarter, seeing an increase of 93.7 billion KRW and becoming the largest contributor to the overall growth in venture investment for 2020. On the other hand, industries like distribution/services and video/performing arts/music, which were severely impacted by COVID-19, saw a decrease in investment compared to 2019. Venture investments in the non-face-to-face sector amounted to 1.998 trillion KRW in 2020. When breaking this down quarterly, investment in non-face-to-face sectors steadily increased from Q1 to Q4, with the third quarter showing a significant jump of nearly 50% (an increase of 198 billion KRW, +49.3%) compared to Q2. The increase rate of venture investment in the non-face-to-face sector in 2020 was 5.1%, which was 4.5 percentage points higher than the overall increase rate of 0.6%.

The total amount of venture fund raised in 2020 was 6.567 trillion KRW, an increase of 2.324 trillion KRW (+54.8%) from 4.243 trillion KRW in 2019. This marked the first time the total exceeded 6 trillion KRW, setting a new record.

Thus, in 2020, both the venture fund raised and venture investment reached the highest ever, demonstrating that the heat of the venture investment market remained strong even amid the COVID-19 crisis.

This strong venture investment trend continued until 2023 (Ministry of SMEs and Startups 2024a). The following is a summary of the Ministry of SMEs and Startups' press release.
A distinct recovery trend was observed in the domestic market compared to the global market. When converted to dollars, the size of domestic venture investment in 2023 was 22% higher than pre-COVID levels in 2020, while the U.S. saw a 1% decrease and Europe saw a 4% increase, maintaining levels similar to 2020. Although venture investments in various countries declined compared to the exceptional surge in 2021-2022 due to liquidity expansion, the Korean market remained relatively stable.

In 2023, the total amount of domestic venture investment reached 10.9 trillion KRW, marking the highest level excluding 2021-2022, and the average annual growth rate has been 16% since 2008 when it was 1.2 trillion KRW, maintaining a mid-to-long-term growth trend. The total annual investment of 10.9 trillion KRW was a 35% increase compared to the pre-COVID peak in 2020, which was 8.1 trillion KRW. The recovery trend continued throughout 2023, with investment amounts rising for four consecutive quarters (1.8 trillion KRW → 2.7 trillion KRW → 3.2 trillion KRW → 3.3 trillion KRW). In the second half of 2023 (6.4 trillion KRW), investments increased by 33% compared to the second half of 2022 (4.8 trillion KRW), showing a positive trend.

However, there were differences in the industries compared to the period immediately after COVID-19. Instead of the COVID-19 related industries such as non-face-to-face and bio, which had been highly favored in 2021-2022, deep-tech sectors like AI semiconductors and robotics emerged as the primary investment targets. The investment in 'ICT manufacturing' and 'electricity, machinery, equipment' sectors increased by 63% and 40% compared to the previous year, while the investments in 'ICT services' and 'distribution/services' decreased by 36% and 43%, respectively.

Prevention of Large-Scale Unemployment

The unemployment rate, which was around 3% in July 2019, rose to about 3.3% in January 2020, when COVID-19 began spreading in South Korea. By July, it increased to approximately 4%, but after fluctuating, it showed a relatively stable trend. The crisis escalated in January 2021 when the rate exceeded 5%, but it gradually decreased. By August, the number of unemployed was 615,000 out of a labor force of 29.02 million. Even during periods of economic boom, the number of unemployed had exceeded 700,000 to 800,000 per month, but it dramatically decreased. This was the lowest figure since the monthly unemployment rate statistics under the current measurement standards began to be recorded in June 1999 (Cho 2022).

Changes in the Number of Self-Employed Workers and Sales

While the number of employees in small and medium-sized enterprises (SMEs) and Startups decreased, a large shock of over 10% was avoided, minimizing the economic impact. Below is a summary of the basic statistics analysis of SMEs conducted by the Ministry of SMEs and Startups and the National Statistical Office (Oh and Han 2022). The number of employees in SMEs decreased by 3.9% in 2020 compared to 2019, with the most significant decline in microenterprises, which saw a decrease of 8.7%.

Some SMEs and small businesses used the COVID-19 crisis as an opportunity to apply non-face-to-face technologies to their businesses, mitigating damage and even experiencing growth. Compared to 2019, the sales of SMEs only decreased by 1% in 2020. By business size, small businesses saw an increase of 1.5%, and microenterprises saw an increase of 2.2%.

Looking at the industries, businesses directly affected by quarantine measures, such as arts, sports, leisure, accommodations, and restaurants, saw a decrease of over 10%. In contrast, businesses in sectors that were less affected by COVID-19 measures, such as professional services, science, finance, insurance, and information and communications, saw sales increases ranging from 5.6% to 22.6%.

3-3-2. Limitations

Ambiguity in the Industries Subject to Quarantine Measures

The criteria for determining the industries subject to gathering bans and business restrictions were ambiguous. For example, although public transportation such as buses and subways are high-risk areas where more people gather, no measures were implemented for them. However, micro small businesses, which are considered lower risk, became the main target of gathering bans, leading to many criticisms of this inconsistency. Of course, public services have an unavoidable aspect in that everyone must use them. Nevertheless, restrictions such as limiting gatherings to fewer than three people were enough to directly harm small businesses.

Later, as representatives from the Ministry of SMEs and Startups and the Small Business Association joined the government's advisory body on quarantine measures, the irrationalities were officially pointed out and voiced (Kwon 2021). Despite this, the enforcement of quarantine measures centered on small businesses continued due to the special circumstances of the infectious disease.

Rapid Deterioration of Business Conditions Due to Increased Loans During the COVID-19 Response

Sharp Increase in Small Business Loans

Below is a summary of the Bank of Korea's Financial Stability Report from June 2024 (Kim et al. 2024). During the COVID-19 period, loans to self-employed individuals increased to 1,055.9 trillion won in 2024, having been about 700 trillion won in the first quarter of 2020. Although the growth rate has slowed since the second half of 2022, it still increased by 2.1% compared to the previous year, which is higher than the 1.6% increase in household loans.

This rapid increase in loan size becomes even more concerning when examined alongside delinquency rates. Both the household loan delinquency rate and the self-employed loan delinquency rate have increased since the second half of 2022. Specifically, the household loan delinquency rate rose from 0.56% in 2022 to 0.98% in 2024, while the delinquency rate for self-employed loans tripled during the same period.

One of the causes of the rise in delinquency rates could be the increase in interest rates as the Bank of Korea raised the base rate to curb the sharply rising prices after COVID-19. However, compared to past trends, it can be seen that the delinquency rate of self-employed loans has risen more sharply than the fluctuations in the interest rates of self-employed loans.

Additionally, vulnerable borrowers, who are multiple debtors and either low-income or low-credit borrowers, appear to have higher risk. The delinquency rate for vulnerable households increased from around 6% in 2022 to 9.97% in the first quarter of 2024, while for self-employed individuals, it rose from about 4% to 10.21% during the same period. Furthermore, when examining the proportion of vulnerable borrowers, vulnerable households maintained a proportion of 5-6% from 2020 to 2024, while the proportion of vulnerable self-employed borrowers increased from 10.21% to 12.7% during the same period.

Considering that the repayment period for small business policy funds typically consists of a 1-year maturity or a 2-year grace period followed by a 3-year repayment, the loans and guarantee programs that increased during the COVID-19 response are gradually reaching their repayment deadlines, which seems to be becoming a burden for small business owners.

Shift from stability to an upward trend in the business closure rate

Initially, there were concerns that many small businesses would shut down due to the spread of COVID-19. However, the closure rate actually remained around 9%, which was lower than the 10% rate in

2019. In 2023, however, it sharply increased. The number of self-employed business closures in 2023 was 911,000, with the closure rate turning upward to 9.5%. In addition, the Yellow Umbrella Fund for business closures and unemployment benefits for self-employed individuals have also been steadily increasing. It appears that businesses, which had been struggling to overcome the crisis with government support, are now considering closing down more as the loan maturities approach. (Ministry of Economy and Finance 2024)“

There are various reasons why business closures have increased compared to the period when COVID-19 was first spreading in 2020-2021. The first reason is that government support policies, such as loss compensation for self-employed individuals, may have delayed closures. Since the government support targets businesses that are still in operation, businesses had to avoid officially reporting closures to continue receiving support. Secondly, due to the characteristics of business closure statistics, they may not accurately reflect the economic situation. Business owners often decide to close their businesses after a prolonged period of poor performance, and the administrative process of completing the closure takes about seven months or more. Therefore, there is a significant delay between when the economic downturn or external factors such as COVID-19 occur and when business closure statistics are recorded. (Choi 2022)

Inadequate Development of Timely Statistics to Assess Damage Scale

There was also a lack of timely statistics to assess the damage scale of small businesses and self-employed individuals (Jang and Kim 2022). The monthly sentiment indices and trend surveys are based on subjective responses from the respondents rather than quantitative data such as sales, making them limited for objective use.

Furthermore, these surveys are often conducted only once, making it difficult to continuously monitor the situation.

On the other hand, surveys that gather objective figures such as sales and operating profit are conducted annually, which means there is a gap of more than a year between the survey date and the publication date, making it difficult to assess the situation in real-time. In order to develop COVID-19 policies, the government had to work with the National Assembly to secure budget approvals. However, when the National Assembly, representing the public, asked, “So, how much damage have small businesses and self-employed individuals incurred due to COVID-19?“ it was difficult to provide an accurate answer.

In the end, while there is a need for evidence-based policies through rapid and accurate analysis of the impact on small businesses and self-employed individuals in the event of an economic shock, domestic statistics are still insufficient to support this.

To improve the timeliness of small business and self-employed statistics, it is necessary to enhance existing national statistics and develop new experimental statistics. Additionally, efforts should be made to improve the timeliness and usability of existing statistics and develop various “experimental statistics“ to quickly identify small business and self-employed related indicators. For this, close cooperation and smooth data sharing between relevant ministries, with the Ministry of SMEs and Startups as the leading agency for small business statistics, is essential. Through inter-ministerial collaboration, it is necessary to establish a big data platform to integrate and utilize the scattered small business and self-employed data across different ministries.

Furthermore, to activate the development of real-time statistics for small businesses and self-employed individuals, there is a need to strengthen cooperation between the public and private sectors for data linkage and utilization, as well as to foster private data providers.

Inadequate Legal Framework

Although the disaster relief fund required large-scale financing, there was insufficient legal basis, leading to ongoing debates about whether the relief funds were simply subsidies or compensation for the government's quarantine measures. To respond quickly to the sudden COVID-19 crisis, it seems that priority was given to budgeting and executing funds. However, now that COVID-19 is no longer the immediate concern, there is a need to revise relevant laws to respond appropriately to future crises.

Fraudulent Claims

Fraudulent claims have always been an issue in cash support programs such as disaster relief for small businesses, loss compensation, emergency employment stability support, and non-contact vouchers.

For example, in the case of the non-contact voucher program, fraudulent activities were detected from the beginning. As competition among supply companies intensified, there were instances of demand companies paying bribes to enter into contracts or offering rebates between the supply and demand companies. To address this, the Ministry of SMEs and Startups, the responsible department, conducted on-site investigations. One example involved a supply company providing a laptop worth 2 million won to a demand company in exchange for purchasing services. Another supply company used regional merchant associations to organize fraudulent applications for relief funds, offering 200,000 won per application. (Back 2022) A system to prevent such fraudulent claims in advance and a more sophisticated recovery process remain challenges for the future.

Increase in National Debt

The government budget, which was 469.6 trillion won in 2019, increased to 512.3 trillion won in 2020, 558 trillion won in 2021, and 607.7 trillion won in 2022, with an annual increase of about 9%. As a result, national debt also sharply increased, and the ratio of national debt to GDP surged from 37.6% in 2019 to 50% in 2022. While this is still lower than the OECD average of 90%, it is important to note that the national debt has been increasing very rapidly compared to the 30% range maintained from 2016 to 2019. (Choi 2023)

3-4. Response from Other Countries

3-4-1. United States

The Biden administration in the United States has been pushing policies to support economic recovery, aiming for “Building Back Better“ through various stimulus measures, with a focus on expanding support for small businesses. These efforts are intended to mitigate the economic shock caused by the COVID-19 pandemic and address the challenges faced by small businesses.

On December 27, 2020, then-President-elect Biden announced a $0.9

trillion economic stimulus package through the Consolidated Appropriations Act. This measure was intended to alleviate the economic shock during the early stages of the pandemic and included financial support for various economic sectors. Subsequently, on March 11, 2021, the Biden administration introduced the American Rescue Plan Act, which included an additional $1.9 trillion in support. This legislation was a comprehensive economic recovery plan that included direct financial assistance, extension of unemployment benefits, and vaccine distribution, aimed at speeding up the recovery of the U.S. economy.

On March 31, 2021, the American Jobs Plan was introduced, a $2.2 trillion infrastructure and job creation plan. This plan not only included large-scale investments in traditional infrastructure such as roads, railways, and airports, but also investments in clean energy and technological innovations aimed at creating jobs. The next month, on April 28, 2021, the American Families Plan was introduced, a $1.8 trillion plan focused on family support, education, and healthcare.

The following is a summary of the contents from the Small Business Focus Report No. 21-15. (Noh, Lee, and Kim 2021)

(1) Crisis Recovery Support

A. Small Business Debt Relief (SBA Debt Relief) Small businesses in the U.S. faced significant economic difficulties during the COVID-19 pandemic. To help overcome these challenges, the government implemented various debt relief programs through the Small Business Administration (SBA). The legal basis for this program is the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted on March 27, 2020, and targets small businesses that received SBA loans such as 7(a), 504, and Microloans. These loans were used for various purposes, including operating funds, debt repayment, and purchasing machinery, equipment, and raw materials. Additionally, the SBA provided automatic support without the need for a loan application. The total budget for this debt relief program was $20.5 billion, including $17 billion from the CARES Act and $3.5 billion from the Economic Aid Act.

Specifically, for loans approved between March 27 and September 27, 2020, the SBA waived 3 to 6 months of loan principal, interest, and fees. For loans approved after September 27, 2020, 3 months of loan relief was provided. For loans approved between February 1 and September 30, 2021, 3 months of loan principal, interest, and fees were waived, with a monthly cap of $9,000.

(2) Business Loss Support

(2)-a Restaurant Revitalization Fund (RRF)

The U.S. government launched the Restaurant Revitalization Fund (RRF) to support the food and beverage industry, which was severely affected by COVID-19. This fund was based on the American Rescue Plan Act, which was enacted on March 11, 2021. Applications were accepted from May 3, 2021, to March 11, 2023. The target was food and beverage businesses that experienced a decrease in revenue due to COVID-19, and the total budget for this program was set at $28.6 billion.

The support amount was distributed based on the duration of business operations and revenue losses, ranging from $1,000 to $5 million. The funds could be used for various expenses, including wages, rent, materials, mortgage interest, and utilities. By June 30, 2021, a total of

278,000 applications were received, of which 101,000 were approved.

(2)-b COVID-19 Economic Injury Disaster Loan (EIDL)

The Economic Injury Disaster Loan (EIDL) program was designed to support small businesses affected by the economic impact of COVID-19. It was based on the Coronavirus Preparedness and Response Supplemental Appropriations Act, which was enacted on March 6, 2020. The target was small businesses with fewer than 500 employees, and the loan limit was set at $500,000. The funds could be used for employee wages, rent, materials, and utilities. In 2020 and 2021, the loan term was extended, and additional targeted grants were provided. As of July 29, 2021, the number of approved loans reached 3.8 million, with a total support amount of $236.2 billion.

(2)-c Shuttered Venue Operators Grant (SVOG)

The Shuttered Venue Operators Grant (SVOG) was established under the Economic Aid Act, enacted on December 27, 2020, and the American Rescue Plan Act, enacted on March 11, 2021, to support venues such as theaters and live performance organizations impacted by business closures. The total budget for this grant was $16.25 billion, and the support amount covered 45% of lost revenue, with a maximum grant of $10 million.

(2)-d Net Operating Loss Carryback (NOL Carryback)

This tax relief program was designed to help businesses that incurred losses after 2018. It allowed companies affected by COVID-19 to claim refunds for taxes paid in the past five years. In 2020, the full refund was available, and the refund rate was reduced to 80% starting in 2021.

(3) Employment Retention Support

(3)-a Paycheck Protection Program (PPP)

The Paycheck Protection Program (PPP), based on the CARES Act enacted on March 27, 2020, provided loans to small businesses to support payroll and operating costs. A portion of the loan was forgivable if certain conditions were met. The eligibility criteria and requirements were tightened in 2021, and the loan limit was reduced to $2 million, with some relaxation of the forgiveness requirements. By May 31, 2021, the number of loan approvals reached 11.82 million, with a total amount of $279.4 billion in loan forgiveness.

(3)-b Employment Retention Credit (ERC)

The Employment Retention Credit (ERC) was designed for businesses that faced challenges due to shutdowns or revenue losses in 2020 and 2021. This program allowed eligible businesses to claim a payroll tax credit, with the maximum amount per employee increasing to $7,000. The eligibility criteria were relaxed from a 50% revenue decrease to a 20% decrease, and the program was extended until December 31, 2021.

(4) Competitiveness Enhancement Support

(4)-a State and Local Government Support

The COVID-19 Fiscal Recovery Fund (CFRF), based on the American Rescue Plan Act enacted on March 11, 2021, provided support to state and local governments. The fund allocated $350 billion for public health, small business support, and worker and family assistance, with funds allocated to state and local governments through flexible support mechanisms until 2026.

(4)-b State Small Business Credit Initiative (SSBCI)

The SSBCI was introduced in 2021 to support small business loans and investments, with a budget of $10 billion. This program collaborated with local financial institutions to help small businesses secure funding. It included loan guarantees, collateral support, and venture capital investments, and provided support to businesses facing economic difficulties.

(4)-c Manufacturing and Small Business Activation Measures

The U.S. government planned an investment of $50 billion to strengthen the competitiveness of small businesses, focusing on semiconductor manufacturing and research and expanding federal procurement of clean energy products. It also enhanced small business support through regional innovation hubs and the Small Business Manufacturing Expansion Partnership (MEP) and increased funding for various manufacturing innovations.

(5) Development of Timely Statistics

The U.S. Census Bureau conducted the Small Business Pulse Survey (SBPS) to assess the impact of COVID-19 on small businesses in a timely manner. This survey began in April 2020, shortly after the World Health Organization declared COVID-19 a pandemic, and collects data on small business revenues, profit margins, loan usage, delinquency status, and national financial aid support. Furthermore, the Weekly Business Formation Statistics (BFS) provides weekly, monthly, and annual reports on entrepreneurship in the U.S. (Jang and Kim 2022)

3-4-2. United Kingdom

The United Kingdom passed the “Coronavirus Act 2020“ on March 25, 2020, through the UK Parliament, which aimed to support self-employed individuals affected by the COVID-19 outbreak. There are four main measures that were introduced.

(1) Job Support Scheme

This program focused on helping businesses retain employees without laying them off. The scheme extended the furlough system, allowing businesses to receive partial support for employee wages for a certain period. The government provided up to 80% of the employees' wages. This support began in October 2020 and could be extended until 2021. (GOV.UK n.d.)

(2) Self-Employed Income Support Scheme (SEISS)

This policy was designed specifically for self-employed individuals, freelancers, and sole traders, especially those whose income had drastically decreased. Specifically, self-employed individuals whose income dropped by 50% or more could receive support up to 80% of their 2019 income. The support could be up to £7,500 and was paid in three-month installments based on tax filings. (Kim 2021)

(3) Coronavirus Business Interruption Loan Scheme (CBILS)

To help small businesses facing economic difficulties due to COVID-19, the government implemented the Coronavirus Business Interruption Loan Scheme (CBILS). This loan program provided government-backed guarantees for loans, allowing small businesses to access loans at lower interest rates. The structure of this program is very similar to the special loan guarantees provided by organizations such as Korea's Credit Guarantee Foundation, Technology Guarantee

Fund, and Regional Credit Guarantee Foundations. The guarantee rate was 80% of the loan amount, and loans could be granted up to £5 million. The loan interest rate was determined by market conditions but was relatively favorable due to the government guarantee. Loan repayments were deferred for the first 12 months, helping ease the financial burden on businesses. (GOV.UK n.d.)

(4) Bounce Back Loan Scheme (BBLS)

The Bounce Back Loan Scheme (BBLS) can be considered a special guarantee product aimed at small businesses and self-employed individuals. Considering the smaller scale of the target group, this scheme offered loans up to £50,000, with a 100% government guarantee, which is lower than the CBILS program. The loan repayment period was set for 6 years, with a fixed interest rate of 2.5%. Businesses could defer repayments for up to 12 months. The application process was simple and quick, and the eligibility criteria were relatively relaxed, meaning many small businesses benefited from this scheme. (GOV.UK n.d.)

3-4-3. France

In response to the COVID-19 crisis, the French Parliament passed the “COVID-19 Emergency Response Law“ on March 23. This law covers matters related to the ’public health emergency (Etat d’ urgence sanitaire)’, emergency economic measures, and actions to prevent the spread of COVID-19. In particular, Article 11 empowers the government to enact decrees (Ordonnances) to take necessary actions in response to COVID-19.

(1) Solidarity Fund

Using the powers granted under this law, the French government passed the “COVID-19 Economic, Financial, and Social Impact Solidarity Fund Law“ (hereinafter referred to as the “Solidarity Fund Law“) on March 25. This law requires the state and local governments to establish a solidarity fund for financial support to businesses severely impacted by the economic and financial consequences of COVID-19 and related health measures. The specifics regarding eligibility, conditions, and fund management were determined through decrees (Décret). According to Article 2 of the Solidarity Fund Law, the state is responsible for providing the fund’s resources, and regional and local governments can voluntarily contribute to the fund. Private companies can also donate to the fund, with insurance companies contributing €400 million (approximately 546 billion KRW). The fund began in March 2020 and was extended until December 2021. Eligible businesses were those with a monthly income reduction of 50% or more or whose operations were halted, employing fewer than 10 workers with an annual turnover under €1 million, and received up to €1,500 in support. Particularly, the hospitality and restaurant sectors were heavily impacted, and the government allocated about a third of the fund to support these industries. (Park 2021)

(2) Partial Unemployment System

The French government strengthened the existing partial unemployment system (Activité Partielle) to maintain employment and prevent layoffs during the crisis. This system applied when working hours fell below the legal limit or facilities were closed. Approximately one-third of the workforce benefited from this system throughout 2020. Employees’ salaries were guaranteed at 70% of their full wages, and 100% of the minimum wage was guaranteed. For businesses in protected sectors, this level of support was maintained, while businesses outside protected sectors faced a slightly reduced support ratio. (République Française 2024)

(3) Tax and Social Security Contribution Support

To support small and medium-sized businesses in protected sectors, the French government exempted or reduced social security contributions during the lockdown period. Additionally, for self-employed individuals, some of the social security contributions were waived based on 2019 revenues. These measures were intended to help businesses improve cash flow and overcome economic hardships. Businesses also benefited from tax deductions and extensions on tax payment deadlines to ease their tax burdens. (République Française 2024)

3-5. Outcomes and Limitations

3-5-1. Outcomes

One year after the implementation of the U.S. relief plan, the performance of the law was announced, and the U.S. government stated that it achieved significant economic outcomes, including the creation of 4 million jobs despite the COVID-19 crisis. (U.S. Department of the Treasury 2022) The following is an excerpt from the U.S. Treasury Department's press release.

The ARP expanded the Earned Income Tax Credit (EITC), providing additional support to 16 million workers. In particular, it benefited young workers aged 19 to 24 and workers over 65, marking the first expansion of eligibility in 30 years.

Through the Rescue Plan, 740,000 essential workers (teachers, nurses, police officers, etc.) received additional compensation. Additionally, state, local, and tribal governments were able to provide support to economically affected communities and helped maintain employment.

The $10 billion Small Business Credit Initiative (SSBCI) supported low-income areas and minority communities by expanding access to credit and providing funds for investment in entrepreneurs. This program is expected to provide direct credit to more than 100,000 small businesses.

During 2021, it stimulated economic recovery by creating more than 4 million jobs and significantly increasing GDP growth. The U.S. government stated that without this law, the country could have faced a double-digit recession.

Furthermore, the U.S. government played a crucial role in supporting the survival of small businesses, strengthening the economic recovery and the entrepreneurial environment. In particular, it expanded loan support through community financial institutions, benefiting more than 100,000 small businesses.

In conclusion, the U.S. government highlighted that, despite the severe economic and public health crisis at the beginning of the pandemic, the law played a pivotal role in the recovery of U.S. society, especially by addressing economic inequality through various forms of support for vulnerable groups.

Subsequently, in 2023, the U.S. White House reported the performance of the relief plan in 2022: the unemployment rate decreased to 3.6% in 2022 and 3.4% in 2023, 12 million jobs were created over two years, and 10.5 million new small business applications were filed. The results of the second year were also announced. (The White House 2023)

3-5-2. Limitations

The COVID-19 pandemic tested the crisis management abilities of governments, and as a result, many countries made efforts to minimize economic and social impacts through emergency fiscal spending and centralized policies. However, such responses have been criticized for focusing too much on overcoming short-term crises rather than building long-term resilience. In particular, large-scale fiscal stimulus plans like the U.S. American Rescue Plan Act (ARPA) have been criticized by the media for weakening the independence of individuals and communities, leading to increased government dependency. (Wayne 2021)

For example, while government intervention in emergencies may be essential initially, in the long term, centralized control could lead to a significant fiscal burden on future generations. This has become an important issue that policymakers and civil society must reconsider.

3-6. Conclusion

Support policies such as loan programs in various countries are similar in nature to the subsidies, loans, and relaxation of access conditions to financial institutions, as well as the easing of conditions for leave and unemployment benefits implemented in South Korea. However, it is worth noting that the U.S. Paycheck Protection Program (PPP) had the unique characteristic of being a conditional loan that converted to a full grant if employment was maintained, and France’s Solidarity Fund involved the government and large corporations working together, including contributions from insurance companies, to provide support to small businesses. These aspects offer lessons that could be applied in South Korea.

Moreover, each country made efforts to develop timely statistics. South Korea also faced challenges in accurately assessing the business conditions and scale of damage to small businesses when formulating COVID-19 relief policies. Therefore, it is essential to learn from these policies. Such statistics will serve as fundamental data for developing small business and self-employed policies not only in the event of a second large-scale infectious disease crisis but also in addressing all future socio-economic uncertainties.

4. Post-COVID Period

4-1. Current Status of Government Response in the Post-COVID Period

The government's policy initially focused on ensuring that small and medium-sized enterprises (SMEs) and self-employed individuals fully recover from the damage and normalize their operations. The new administration made complete recovery its top national agenda and demonstrated its policy commitment.

Since the new administration took office in April 2022, four major comprehensive measures related to SMEs and self-employed individuals have been implemented: "Policy Directions for Self-employed and Small Business Owners by the New Administration" in August 2022, "Start-up Korea Comprehensive Plan" in August 2023, "Small and Medium Business Leap Strategy" in April 2024, and "Comprehensive Plan for Self-employed and Small Business Owners" in July 2024. This section examines the key directions and details of these four comprehensive policies. Additionally, two policies were announced in October 2022 following the release of the August 2022 self-employed policy directions: the "Extension of the Maturity Extension and Repayment Deferral System" and the "New Start Fund." These two policies are also reviewed.

4-2. August 2022: "New Administration's Policy Directions for Self-Employed and Small Business Owners "

The "New Administration's Vision for Self-employed and Small Business Owners," jointly announced by relevant ministries in August 2022, aimed to recover to pre-COVID-19 levels in the short term while fostering self-employed individuals with entrepreneurial spirit and competitiveness in the medium to long term (Ministry of SMEs and Startups 2022e). The policy shift was from government-led, protection-oriented direct support to a growth-focused, private-sector-driven infrastructure. The following is an excerpt from the Ministry of SMEs and Startups' press release.

More specifically, the first strategy was to implement an emergency response plan for the impacts of COVID-19 and the "three highs" (high interest rates, high prices, and high exchange rates). The plan aimed to rapidly support small business owners' recovery by integrating previously dispersed services like business closures, debt adjustment, and re-challenge support into a unified package. For those closing their businesses, the plan included expanded support for demolition costs, psychological counseling, and legal advice, as well as a fast-track program for re-entry support and debt adjustment to ease financial burdens.

To build a robust social safety net, the government planned to expand the number of small and medium-sized enterprises (SMEs) and self-employed individuals enrolled in the Yellow Umbrella Insurance scheme from 1.54 million at the end of 2021 to 2.5 million by 2027. Additionally, the legal foundation for welfare support programs was to be established, with expanded details.

Moreover, the government began implementing a new financial program worth 58 trillion won, increasing the loan limit for ultra-low-interest loans from 10 million to 20-30 million won, and expanding eligibility.

To overcome COVID-19, large-scale consumer festivals, including the

“Korea Sales“ event, which was first held in 2020, were held more than five times per year.

The second strategy was the innovation of small business management based on smart and digital technologies. A “National Business District Big Data Platform“ was established to integrate fragmented information about small business sales, operating profits, and local market information. By providing this integrated data back to small business owners, they could selectively utilize the information they needed to improve their management and eventually contribute to the private sector by creating new businesses.

To support small business owners unfamiliar with the concepts of smart technology and digitalization, the government proactively prepared a roadmap for the introduction of smart technologies and provided digital planners for matching. The plan is to introduce 70,000 smart stores and smart workshops by 2027.

Traditional markets were also digitized through the establishment of online delivery infrastructure and the introduction of smart payment systems.

The third strategy aimed to foster entrepreneurial small business owners. It is common for small businesses to stay stagnant rather than pursue growth, as smaller businesses are more likely to be included in government support programs. The government planned to prevent small business owners from falling into the “Peter Pan Syndrome“ and encourage them to pursue growth.

To achieve this, the criteria for small businesses were to be unified, focusing on future sales rather than current employment and revenue, thereby encouraging small businesses to actively hire.

Additionally, the government aimed to shift the policy paradigm from protection to fostering growth, with direct government support for scaling up small businesses through targeted selection, focused support, branding, and investment.

Finally, the fourth strategy was to create local commercial districts through private collaboration. The plan was to establish systems to help local creators who base their businesses on local communities, such as using local specialty products, grow quickly.

The government planned to support the branding of local commercial districts so that the unique stories of local creators could be integrated into their products and businesses. Offline stores were to be transformed into “experience spaces“ where local culture and business stories could be experienced, and local products would be distributed nationwide through online logistics and distribution channels. The creation of “Alley Venture Valleys“ led by self-employed individuals, such as the coffee street in Gangneung, was also part of the plan.

The government introduced the “Business District Planner“ system, which would help local creators with branding, redesigning alley commercial districts, and enhancing their commercial potential. The establishment of a business district development fund was under consideration to support these activities, which would be used for purchasing shop properties, long-term leases, and building local logistics networks.

Lastly, the plan was to create “Neighborhood Commercial

Development Centers“ at the town, village, and district level, where local residents, small business owners, and experts would collaborate to develop and implement strategies to revitalize local markets.

4-3. October 2022: Extension of Maturity Extension and Repayment Deferral System

With the full lifting of COVID-19 restrictions, including business closures and operating hour limitations in April 2022, business operations were normalized. However, due to worsening management conditions such as high interest rates, inflation, and exchange rates, the government decided to extend the maturity extension and repayment deferral system for the final time, which was originally scheduled to end in October 2022 (Financial Services Commission 2022b). Below is an excerpt from the FSC press release.

This extension focused on providing enough recovery time, in contrast to the previous extensions that simply repeated the same support measures. Instead of extending the program for six months as before, the maturity extension period was increased to a maximum of three years. Additionally, interest repayment deferrals would be supported for up to one year to alleviate the loan burden on SMEs and self-employed individuals facing liquidity difficulties.

If repayment remained difficult even after these measures, the program linked with financial institutions’ debt adjustment systems to ease the repayment burden, or provided further support through the New Start Fund, which is discussed below.

Summary of Support Measures

Classification of Borrowers		Cases Where Debt Adjustment is Not Desired	1:1 Consultation	Cases Where Debt Adjustment is Desired
Borrowers Using Maturity Extension	124.7 trillion won (534,000 people)	Additional maturity extension support for up to 3 years (transition to voluntary agreements by financial institutions)	If borrowers wish, support can be provided through the New Start Fund or financial institutions' own debt adjustment programs (e.g., Individual Business Owner 119, etc.) to alleviate the repayment burden.	
Borrowers Using Repayment Deferral	16.7 trillion won (38,000 people)	Additional repayment deferral support for up to 1 year		

Source: Financial Services Commission

Additionally, the financial support program called 'Debt Relief Three-Piece Set' will also be implemented.

First, to receive support under the Small Business Policy Fund Repayment Extension System, the borrower had to have been in business for at least 3 years and have a loan balance of over 30 million won. This requirement will be abolished, and the support target will be expanded. Furthermore, unlike the 1-year extension period offered by commercial financial institutions, the extension period will be significantly increased to a maximum of 5 years. The interest rate applied during the repayment extension will also be reduced by approximately 0.4 percentage points to minimize the financial burden.

For the repayment deadline extension of guarantee-backed loans from regional credit guarantee foundations, a 5 trillion won conversion guarantee will be implemented, and prepayment penalties will be waived. The conversion guarantee’ s guarantee fee rate will also be reduced by 0.2 percentage points.

In addition, to alleviate interest burdens, the requirements for the creditworthiness of small business owners to convert high-interest loans (7% or higher) from banks and non-banks into low-interest loans will be relaxed from an NCB score of 839 to 919 or below. The loan eligibility period will also be extended from before August 31, 2023, to before July 3, 2024, and it will include not only business loans but also household loans used for business purposes.

4-4. Launch of the New Start Fund in October 2022

COVID-19 policy funds were a great help in securing immediate operating costs for small businesses and self-employed individuals. However, since they were not grants, there was always the burden of repayment looming in the future. Especially with the ongoing triple crisis, which are high interest rates, high inflation, and high exchange rates, mentioned earlier, the business environment for companies continued to be difficult. To address this issue, the government introduced the New Start Fund system in October 2022 (Financial Services Commission 2022a). The following is an excerpt from an FSC press release.

The core objective of the New Start Fund is to assist self-employed individuals and small business owners who were affected by COVID-19 in repaying their loans and guarantees. The support involves either purchasing the financial sector loans that the small businesses hold or, with the consent of the financial institutions, proposing debt restructuring plans such as adjusting the repayment schedule or reducing the amount, thereby helping small businesses repay them smoothly.

The debt adjustment plan is divided into two main categories. The first is adjusting the repayment schedule based on the individual small business owner's business conditions, such as extending the repayment period, converting to long-term installment repayment over 10 years, and reducing interest rates. The second is providing principal reduction support for the portion of debt that exceeds the value of the assets held (debt - assets), with a reduction of 60-90%.

At the time of the New Start Fund's launch, there was negative public opinion and controversy regarding the government's decision to reduce small business owners' debts with taxpayer money. However, the government emphasized that debt restructuring had been carried out through institutions like the Credit Recovery Committee, and that various safeguards had been put in place in the selection and management of the support recipients to prevent moral hazard, thus quelling the controversy. As a result, in 2023, 31,706 people applied for the New Start Fund, and by the first half of 2024, 26,178 people had already applied, reaching 90% of the previous year's applicants. Consequently, the government plans to increase the purchasing scale of the New Start Fund from the initial 30 trillion won to 40 trillion won in the 2025 government budget to provide more comprehensive support to small businesses.

4-5. “Startup Korea Comprehensive Plan“ - August 2023

Since the COVID-19 pandemic, digitalization has accelerated, leading to the emergence of various industries and businesses. To seize these opportunities and lay the foundation for growth into new innovation trends, the government announced the “Startup Korea Comprehensive Plan“ in August 2023, which contains a new paradigm for startup policies (Ministry of SMEs and Startups 2023). The following is an excerpt from the press release by the Ministry of SMEs and Startups.

Globalization of the Startup Ecosystem

Previous startup policies focused solely on domestic entrepreneurs based in Korea. However, as the number of Korean entrepreneurs active overseas increases, the government plans to support Korean entrepreneurs who start businesses abroad in order to accelerate their globalization. To this end, legal grounds will be established to allow the government to provide funds to overseas business corporations that contribute to the Korean economy.

Additionally, the government will introduce the “Global TIPS“ program, which will provide matching support for startups that have received investments from overseas venture capital firms of a certain size.

The government will also review the issuance of startup visas and commercialization funds to help foreigners start businesses and work in startups in Korea. Furthermore, the “K-Tech College“ program will be promoted to support university students from developing countries, such as Vietnam, by offering SW education linked to Korean companies and helping them find employment. A “Space-K“ will be created in the metropolitan area to foster exchange among young people from around the world, and a “Global Startup Center“ will be established for foreign entrepreneurs.

Transition to Private Venture Investment and New Support Methods

To shift away from government-led subsidy programs, the government and private sector will co-invest to create a “Startup Korea Fund“ worth 2 trillion won by 2027, focusing on three key areas: “Deep Tech,“ “Global Expansion,“ and “Exits (Secondary).“ Instead of providing uniform subsidies, the government will offer more support per company in the form of combined investments and loans, encouraging reinvestment of recovered funds.

Activating Regional Startup and Venture Ecosystems

In addition to the concentrated startup infrastructure in the metropolitan area, the government plans to activate startup ecosystems in various regions. To achieve this, “Local Space-K“ will be created, offering spaces for young people to establish businesses in their desired locations. This will be synergized with the ongoing Startup Park project. The Local Space-K will be expanded into new “Startup Clusters,“ which will promote smooth communication and commercialization of technology between startups, universities, and research institutions.

Additionally, to stimulate investment in non-metropolitan areas, the “Regional Angel Investment Hub“ will be continuously expanded. The hub will cultivate wealthy individuals interested in investing in startup seed stages as angel investors, facilitating the exchange of information and spreading the angel investment culture. Startup companies seeking seed-stage investments are expected to easily connect with investors through the hub.

Promoting Open Innovation and Regulatory Easing

The government plans to expand win-win cooperation programs between large corporations and startups, and encourage strategic investments in startups by large corporations. Regulatory easing on corporate venture capital (CVC) and startup visas, as well as commercialization fund support, will also be considered. A “Global Innovation Special Zone“ will be designated to apply minimal regulations for rapid growth. Moreover, the government will pursue the establishment of a startup regulatory tree and a regulatory deferral system for early-stage startups.

Fostering a Challenging Startup Atmosphere

The government will expand the base for entrepreneurship to encourage diverse entities to engage in startup ventures. It will provide entrepreneurial education and commercialization support to military personnel, researchers, and university students, creating a conducive environment for entrepreneurship, and introduce “Entrepreneurship-Friendly Academic Systems“ to promote startups within universities. Furthermore, it will support “Deep Science Entrepreneurship“ to promote high-tech, challenging startups.

Active Investment in the Fund of Funds

From 2020 to 2023, the domestic venture investment market grew by 22%, and the government plans to activate the venture investment market by fully utilizing the capabilities of the Fund of Funds to continue this positive trend. The Ministry of SMEs and Startups’ press release, as cited below, outlines the following plans (Ministry of SMEs and Startups 2024b):

First, the entire 9.1 trillion won budget for the 2024 Fund of Funds will be invested within the first quarter, quickly injecting policy financing. This is a 37% increase from the 6.64 trillion won invested in 2023.

The specific breakdown of the 2024 Fund of Funds budget is 4.54 trillion won from the main budget and 4.56 trillion won from recovered funds. The government expressed its intention to actively use all available resources, including recovered funds, to maximize investment.

The funds selected for investment in the first quarter of 2024 amount to 4.463 trillion won, with 46 funds totaling 8.935 trillion won. Most of the funds are expected to be formed in the first half of the year, and they are expected to contribute to accelerating the recovery of venture investments in 2024 starting from the second half of the year.

Key Areas of Focus

This investment initiative follows the complete overhaul of the Rookie League through the “Venture Investment Vitalization Plan“ (October 5, 2023), where venture capital firms are directly proposing challenging investment areas. This will result in a more diverse and innovative venture investment landscape.

The “Regional Startup Seed“ and “Lycon“ areas, newly introduced to promote investment in non-metropolitan regions, have also garnered attention.

The “Regional Startup Seed Fund,“ focusing on early-stage startups in regional areas, was selected with 8 funds totaling 362 billion won. These funds are spread across regions such as Jeju, Chungnam, Busan, and Gwangju, not just the metropolitan area, which is expected to contribute significantly to the growth of regional SMEs.

The “Lycon Fund“ was established for the first time as a dedicated fund for small business owners, aiming to create innovative business models in areas like food, clothing, and housing, and support the growth of small businesses into medium-sized enterprises. A total of 5 funds totaling 250 billion won were selected.

In addition, the “Startup Korea Fund,“ co-created by both private and public sectors, will proceed at an accelerated pace, with swift consultation and private sector involvement.

Furthermore, policies to enhance the capabilities of venture capital firms will be implemented, including expanding the proportion of joint funds operated with foreign venture capital firms under the Fund of Funds’ “Global Fund Investment Project,“ to help Korean venture capital firms build the track record needed to attract foreign investors.

4-6. April 2024: ‘Small and Medium Enterprise Leap Strategy’

Following the comprehensive plans for small business owners and startups, the government unveiled the final pillar, the “Small and Medium Enterprise Leap Strategy,“ in April 2024 (Ministry of SMEs and Startups 2024c). The following is an excerpt from the press release issued by the Ministry of SMEs and Startups. The government emphasized that small and medium enterprises (SMEs) are at a growth inflection point. It highlighted the need for SMEs to effectively respond to changed industrial trends, the spread of protectionism in countries worldwide, and the reorganization of international supply chains following the COVID-19 pandemic. The policy was established based on 60 in-field listening sessions by the Minister of SMEs and Startups, incorporating suggestions gathered from these discussions.

The policy direction is focused on supporting SMEs to proactively respond to future environmental changes and to play a key role as a driving force for the dynamic growth of the national economy. The five main strategies are innovation growth, sustainable growth, shared growth, global leap, and smart support.

The first strategy, innovation growth, consists of four action plans: To promote SMEs' entry into new industries, the government will revise the business transition system to select promising companies entering strategic future sectors. These companies will receive comprehensive support as they restructure their business models, such as by forming subsidiaries, joint ventures, or spin-offs. Particularly to encourage the transition to AI, guidelines for introducing AI process solutions to manufacturing SMEs will be established, and startups developing AI software will be selected for various types of support. Additionally, the government aims to strengthen the outcomes of R&D support by reducing short-term (less than one year) R&D projects and expanding long-term (more than two years) R&D investments. The strategy also includes regulating the allocation of funds from large corporations' venture funds, as well as creating a dedicated M&A platform for SMEs in collaboration with the private sector.

The second strategy, sustainable growth, is composed of four action plans: The government plans to support SMEs in complying with global carbon regulations by providing relevant consulting and carbon reduction equipment, as well as assisting with international certifications. ESG (Environmental, Social, Governance) criteria will be incorporated into various certification systems for SMEs to help them prepare for the future. A system to proactively respond to global economic changes will be established, involving collaboration among various national institutions, such as the Bank of Korea, to provide swift support to SMEs during crises. A special law for SME succession will be enacted to establish a stable foundation for sustainable management.

The third strategy, shared growth, consists of three action plans: To encourage collaboration between large corporations and SMEs in responding to future trends such as ESG, the government will promote supply chain innovation. Specific guidelines for expanding the linkage system of delivery prices, which adjust according to the price of finished products sold by large corporations, will be introduced. Additionally, the “Legend 50“ project will focus on providing concentrated financial support to selected SMEs in regions with specialized industries. The government will also diversify the membership period of the “Tomorrow Matching Contribution“ to encourage long-term employment at SMEs and enhance benefits for participants. The creation of special savings accounts to expand asset-building opportunities for young workers in SMEs will also be considered.

The fourth strategy, global leap, includes support for attracting excellent overseas talent through talent matching and for SMEs to attract global capital. The government plans to establish a global fund worth 14.3 trillion won from 2024 to 2027, in which the government’ s funds will be invested in foreign funds. Furthermore, regulations will be revised to ensure that newly established overseas subsidiaries that maintain production and R&D collaboration networks with domestic companies can receive the same support as domestic companies.

Finally, the strategy of smart support will involve focusing on performance management based on AI and big data. The government plans to use these technologies to improve future policies

4-7. July 2024: ‘Comprehensive Plan for Small Business Owners and Self-Employed Individuals’

Following the announcement of the new government’ s direction for small business policies in 2022, the government unveiled the “Comprehensive Plan for Small Business Owners and Self-Employed Individuals“ in July 2024 (Ministry of Economy and Finance 2024). The following is an excerpt from the press release issued by the Ministry of SMEs and Startups.

The government’s recognition of the background for this plan highlights that the number of self-employed individuals in South Korea stands at approximately 5.7 million, with a proportion of 23.5%, which remains significantly higher compared to major OECD countries such as the United States (6.6%) and Japan (9.6%). Particularly, it pointed out the issue that self-employed individuals are predominantly concentrated in low-barrier, survival-type industries.

This aspect is crucial because it addresses a fundamental problem in the structure of South Korea’ s small businesses and self-employed sector, rather than merely referring to current domestic or international issues. Therefore, this issue deserves closer examination.

The self-employment rate includes employers, individuals who work for themselves, members of producer cooperatives, and unpaid family workers. These individuals work without formal employment contracts and instead share the income generated by the business. (OECD, n.d.)

Self-employed individuals contribute positively to the economy, with some observers considering the revival of self-employment as a sign of economic vitality that stimulates employment growth and industrial dynamism. (Bögenhold and Staber 1991) However, rising rates of self-employment are more likely a reflection of labor market deficiencies rather than a solution to them. Although the rate of new business formations has increased, failure rates have also risen (Hudson 1987). Many of these new businesses, established by unemployed workers, are concentrated in service industries with low entry barriers. However, intense competition in these sectors often leads to new businesses merely displacing existing firms (Storey & Johnson 1987)

The South Korean government has recognized these issues and has made efforts over several decades to maintain the self-employment rate at an appropriate level. The number of self-employed individuals in South Korea remains between 5,000,000 and 8,000,000, and their proportion among all employed persons has steadily decreased. (KOSIS, n.d.)

However, compared to major advanced countries in the OECD, the scale of self-employment in South Korea remains high. In 2021, the proportion of self-employed individuals in South Korea was 23.5%, ranking after Colombia, Mexico, Greece, and Chile. This figure is more than twice that of major advanced countries like Japan and Germany, and approximately three times the 6.6% rate in the United States.(OECD, n.d.)

In particular, South Korean self-employed individuals currently exhibit limited industrial potential to significantly enhance the national economy. The situation has worsened because of recent economic problems like COVID-19 and fast-rising inflation. Examining the industries of South Korean self-employed individuals, more than 50% are concentrated in agriculture, fisheries, retail, and accommodation services. In contrast, sectors with relatively higher productivity and added value, such as manufacturing, construction, and energy, account for only about 10%.(KOSIS, n.d.)

In contrast, in the United States, the proportion of self-employed individuals in retail and agriculture is around 10%. Instead, the self-employed are more evenly distributed across sectors such as financial operations, construction, and professional services. This distribution reflects a broader presence in industries with relatively higher potential. (Hipple and Hammond 2016)

The total amount of loans owed by self-employed individuals in South Korea has been steadily increasing. The delinquency rate for self-employed loans rose sharply from 0.5% in 2022 to 1.52% in 2024, which is approximately a threefold increase. This is very different from the increase in household loan delinquency, which went up from 0.56% to 0.98% during the same time. (Kim et al, 2024)

Furthermore, the number of business closures among self-employed individuals has also risen. The business closure rate for individual entrepreneurs decreased steadily from about 12% in 2017 to 8.7% in 2022. However, following the end of the pandemic in 2023, it increased to 9.7%. (National Tax Service, n.d.)

The aging of self-employed individuals is also a concerning sign. The proportion of self-employed individuals under 39 years old fell from 22.3% in 2007 to 15.2% in 2023, while the proportion of those aged 60 and above surged from 22.0% to 38.8%.(KOSIS, n.d.)

Based on this background knowledge, I believe it is of great significance that the government addressed the structure of self-employed individuals. Furthermore, the government cited the increased loans, rising delinquency rates, and the shift to higher business closure rates during the response to COVID-19 as the background for establishing this policy. This aligns with the issues identified in the earlier section "3-3 Achievements and Limitations." In addition, the government highlighted the need to accelerate the digitalization and smart transformation of small businesses, which is mentioned as a key background for this policy.

Returning to the comprehensive plan for small business owners and self-employed individuals announced by the Ministry of SMEs and Startups, the government noted that despite past policy efforts, the difficulties faced by small businesses have been exacerbated by a combination of both domestic and external economic factors, as well as structural factors. To overcome this, the government has devised a support plan under the principle of providing sufficient support to vulnerable groups while simultaneously addressing structural responses.

The first strategy aims to alleviate the burdensome costs faced by small business owners in order to resolve their operational difficulties. To achieve this, the government has created a “3-Pillars Financial Support Program.“ This includes eliminating the requirements for the operational period and loan balance to be eligible for the repayment extension of small business policy funds, as well as expanding the extension period to a maximum of five years. The repayment period for government-guaranteed loans will also be extended by up to five years, and a new guarantee fund of 5 trillion won will be supplied. In addition, the program to replace loans with interest rates of 7% or more with low-interest loans will also have its requirements significantly relaxed.

The government also plans to ease the five major fixed costs for small businesses: delivery fees, rent, electricity, labor costs, and management fees. To alleviate delivery costs, discussions between delivery platform providers and the small businesses using them will be encouraged to establish win-win solutions, and direct delivery fee support for small businesses will be promoted. The government had previously supported up to 70% of the reduced rental amount for landlords who lower rents, and this support, which was scheduled to end in 2024, will be extended for one more year until 2025. Additionally, in order to reduce the electricity cost burden for small businesses, the government plans to directly support 200,000 won per business and to expand the dissemination of smart technologies, such as kiosks and serving robots, to alleviate labor costs. To ensure transparency in management fees, the government will encourage the active use of standard lease contracts for commercial properties.

A plan to establish a revenue base for small businesses has also been developed. First, the government plans to expand the factoring system for sales receivables and prioritize its supply to small businesses. The government will also expand the usage of the Onnuri Gift Certificate, a product exclusively for small businesses, and introduce post-payment, card-type online gift certificates to improve convenience.

As digitalization has become a key factor in determining the success or failure of business management post-COVID-19, the government has developed policies to support the digital and smart transformation of small businesses. Additionally, various incentives to promote growth into small enterprises have been prioritized.

The government plans to provide tailored support systems through sector-specific diagnostics to guide the direction of digitalization for small businesses. Using management information databases from both the government and the private sector, the government will provide customized information and support in establishing online sales channels. Furthermore, in 2024, 57 traditional markets across the country, such as Gyeongdong Market in Seoul and Jungdong Love Market in Bucheon, will be transformed into digital traditional markets.

Plans for various policy supports to facilitate the scale-up of small businesses to small enterprises are also being developed. First, a “Milestone Support Program“ will be introduced, offering up to 200 million won in dedicated funds for businesses that graduate from the small business category. If the business successfully grows into a small enterprise, additional funding of up to 500 million won will be provided. Moreover, special guarantees will be linked to future performance indicators, such as revenue or entry into the small business category, to be considered for special guarantees.

The government also plans to accelerate the overseas market entry of promising small businesses. In 2024 alone, 1,100 companies will receive consulting services for entry into renowned overseas shopping malls and product localization. In addition, direct purchase consultations with major domestic retail platforms and overseas online shopping malls will be held to assist in expanding sales channels. Furthermore, promising consumer goods, such as meal kits, cosmetics, and clothing, will be selected, and the entire process, from export contract signing to market entry, will be closely supported.

Large-scale promotional events, such as the "Together Festival," will also be linked to global distribution platforms to expand the countries where small businesses can enter international markets.

Finally, **the support for the reemployment and re-entrepreneurship** of businesses that have closed down will be strengthened. The debt adjustment scale of the New Start Fund will be expanded from 30 trillion won to over 40 trillion won to support credit recovery. A new project, the "Hope Project for Reemployment and Re-entrepreneurship," will be launched to improve and link existing policy tools from the Ministry of SMEs and Startups and the Ministry of Employment and Labor to support well-prepared employment and re-entrepreneurship. The project will establish a specialized employment program for small business owners, reforming the existing employment support programs from the Hope Return Package to focus on employment mindsets. Practical job capabilities will be supported for up to six months through the National Employment Support Program run by the Ministry of Employment and Labor. Additionally, employers who hire small business owners who have closed their businesses will receive an employment promotion subsidy of 300,000 to 600,000 won per month for one year.

To facilitate smooth business closure procedures, the government will expand the store demolition support fund from 2.5 million won to 4 million won to match the actual level, and will encourage well-prepared re-entrepreneurship for those who have closed or are planning to close their businesses. The government will match each small business owner with a re-entrepreneurship expert to support the development of new business models and provide up to 20 million won in commercialization funds for promising industries.

The government plans to establish a one-stop platform through the creation of a dedicated channel for small business owners within the Integrated Small and Medium Business Call Center, providing access to all the policies mentioned above

4-8. Response Status in Other Countries

Various policy efforts were made in many countries around the world to alleviate the economic shock caused by the COVID-19 pandemic and enhance the resilience of small and medium-sized enterprises (SMEs). In particular, European countries and Japan strengthened non-financial support measures, such as workforce training and business closure assistance, in addition to financial support. Accordingly, South Korea also needed to expand non-financial support by improving the management capabilities of business owners, simplifying the business closure process, and helping SMEs smoothly repay financial support. Additionally, making the entry and exit of businesses easier was necessary (Lee 2024).

In September 2023, the European Commission (EC) announced the SME Relief Package, which aimed to support SMEs. Key contents included improving liquidity and financial accessibility, expanding access to skilled labor, and providing support throughout the entire business lifecycle. The EC determined that SMEs in member countries had not yet recovered to pre-COVID-19 levels and analyzed that the challenges faced by SMEs stemmed from regulatory and administrative burdens (55%), delayed payments (35%), lack of access to finance (21%), and lack of skilled labor (17%) (Lee 2024).

To address these issues, the EC proposed mandating payments for all B2B transactions within 30 days and suggested modifying late payment rules to automatically provide compensation fees and interest for overdue payments. To improve SMEs' access to finance, the EC announced plans to support over 200 billion euros by 2027, with 7.5 billion euros to be used for guarantee support through the InvestEU program. Additionally, 65 billion euros will be allocated to provide

SMEs with access to digital education and technology, with the goal of having over 60% of the working-age population participate in training programs. The EC also announced plans to establish an online one-stop service that provides all administrative requirements and funding details by country to simplify the startup process. Furthermore, the EC is preparing to ensure continued support for SMEs as they grow into mid-sized enterprises, and to introduce efficient and affordable business closure procedures for small businesses, enabling them to quickly recover after business failure (Lee 2024).

In Japan, the government strengthened loan support for small businesses and SMEs in response to the COVID-19 crisis, aiming to confirm the willingness and sincerity of business owners to improve their management. The Japanese government implemented "Zero-Zero Loans," which were interest-free and collateral-free loans for small businesses and SMEs. As the repayment period for these loans began in July 2023, the repayment burden increased. In response, the Japanese government extended the support period for COVID-19 refinancing loans and COVID-19 safety net guarantees (No. 4) from March to June 2024, requiring business owners to submit a management action plan as a condition for receiving support. This is similar to the conditions for small business management improvement loans from the Japanese Chamber of Commerce, where businesses can receive loans after six months of management guidance from the Chamber of Commerce (Lee 2024).

4-9. Conclusion

Like South Korea, Europe and Japan viewed full recovery from COVID-19 and future growth as key policy goals, strengthening policy support to enhance financial resources and management capabilities for SMEs. This approach aligns well with global trends, and the response of the South Korean government is considered timely and highly positive.

5. Policy Implications

5-1. Consideration of Legislation for Future Crisis Situations

Looking at the policies during the COVID-19 spread, South Korea prioritized quickly allocating budgets and providing them to SMEs and small business owners rather than establishing new laws. In contrast, countries such as France and the United States focused on legislating or amending laws first, then allocating budgets based on these laws. In rapidly changing infectious disease situations, responding flexibly without being bound by legislation can be viewed as a more agile approach. However, since future crises may arise, it is necessary to proactively prepare relevant laws by referring to the COVID-19 pandemic situation. This would provide predictability not only for the small business owners, who are the beneficiaries of support, but also for government agencies involved in budget allocation. In this context, it may be worthwhile to review existing laws or consider new legal provisions to prepare for various future crises, using the COVID-19 small business compensation system as a reference. Additionally, following the examples of the U.S. and the U.K., it is important to consider establishing challenging statistical systems to assess the real-time impact on SMEs and small businesses.

5-2. Continuous and Full Support for Venture Investment

Even amid the unprecedented crisis of COVID-19, South Korea’s venture investment market did not stagnate but instead grew, which is a very important achievement. Therefore, the government should once again pay attention to the strengths of the Korean venture market and actively invest in related budgets and regulatory improvements. However, continuous investment could become a burden on government finances, so it is important to explore various funding sources. First, careful management of the recovery budget for funds previously invested by the Korean Fund of Funds is necessary. Considering that it is government policy funding, it is crucial to focus on supporting areas where private investment is lacking, while balancing the achievement of policy objectives and considering profitability. Additionally, it is important to actively encourage private venture investment. In this regard, the success of policies such as the government’s plans to promote angel investment is critical.

5-3. Proactive Promotion of Globalization

The government is currently considering globalization as a key strategy in its policies for small businesses, startups, and SMEs. This is partly due to South Korea’s inherently small domestic market but also because global supply chains are changing rapidly. In particular, in 2025, U.S. President Donald Trump will take office. Since President Trump emphasizes strong protectionism, it is evident that this will have a significant impact on South Korea’s industries. Therefore, the government needs to quickly analyze global changes and provide guidelines to SMEs and small business owners to respond effectively.

5-4. Fundamental Review of the Structure of Self-Employment

As mentioned earlier by the government, the proportion of self-employed individuals in South Korea is very high compared to major OECD countries, and this situation requires a fundamental approach. This is a very important issue that will eventually lead to the strengthening of the competitiveness of small businesses. However, since improving the structure of self-employment has a significant impact on the overall economy, a cautious and long-term approach is necessary. I would like to propose two specific alternatives to address this issue, as well as evaluations and future plans.

(1) Two Alternative Options to Address Problem

Alternative 1. Expanding Starting Business Regulation (Incremental)

According to the World Bank' s Doing Business ranking, South Korea was ranked 5th in 2019, which indicates an environment conducive to starting a business. This is even higher than the U.S., home to Silicon Valley, which ranked 6th (World Bank 2023). While this is a positive indicator, it also suggests that the ease of starting a business may result in an influx of ill-prepared entrepreneurs, leading to reckless business ventures. Therefore, this alternative aims to tighten regulations around starting a business to prevent those who may not be fully prepared.

Tightening Financial Support for Self-Employment

Strengthen the criteria for financial support programs aimed at self-employed individuals by raising credit standards and reducing loan limits. This involves raising the review standards for government-backed financial institutions such as the Korea Credit Guarantee Fund, Korea Technology Finance Corporation, Korea SMEs and Startup Agency and Small Enterprise And Market Service. Specific measures include requiring detailed business plans for loan applications, reducing loan and guarantee limits by 5-10%, and mandating that business loans for sole proprietors be managed in a separate account rather than a personal account. For commercial banks, more relaxed standards will be applied compared to policy finance, but they will be required to submit business plans for loans to businesses within 7 years of their founding, in accordance with administrative guidelines from the Financial Services Commission.

Regulating Self-Employment Requirements

Implement stricter regulations by reintroducing minimum capital requirements and mandatory business plan submissions for new self-employed ventures. South Korea previously had a provision in the Commercial Act that required a minimum capital of 38,500 USD to establish a company (Ministry of Justice 2009). However, this provision was removed with a 2009 amendment to the Commercial Act, and now it is possible to establish a corporation with just 1 USD of capital. This alternative suggests reintroducing the provision that was removed in 2009, but with a modified requirement: a capital of 7,700 USD instead of 38,500 USD for all industries. The reduction to 7,700 USD aims to prevent significant market disruption, while also acknowledging the current trend where small businesses can be launched with minimal capital, especially through the use of the internet and other platform

Alternative 2. Know-How Transfer Center (Out-of-the-Box Ideas)

Reducing the proportion of self-employed individuals might lead to an increase in unemployment rates. To mitigate this potential side effect, it is crucial to expand good job opportunities that can replace self-employment. Therefore, the focus of these out-of-the-box ideas is to establish a Know-How Transfer Center to provide quality jobs.

This center will rehire highly skilled professionals who are approaching retirement age, allowing them to continue utilizing their expertise after retirement. It is particularly expected to promote the re-employment of individuals over 50, who make up about 60% of self-employed individuals. Simultaneously, the self-employed individuals receiving training at this center will be able to enhance their technical expertise, leading to more productive businesses or successful transitions to more promising fields.

Additionally, this policy will facilitate the transfer of skilled knowledge to younger generations. This not only ensures that the expertise of these professionals is passed down to future generations, creating a positive cycle, but also allows them to continue working in fields where they can apply their long-standing skills. In South Korea, there is a well-known phenomenon where retirees end up opening chicken restaurants (Kim 2019), as re-employment opportunities are scarce. The Know-How Transfer Center is expected to break this negative cycle.

The key focus areas will begin with experts in the food and retail sectors, which are the largest industries for self-employed individuals in South Korea, to enhance their professional skills. Next, the center will hire experts from other promising sectors, such as construction and electrical fields, to help guide self-employed individuals toward career transitions. These experts will provide job training to strengthen the competitiveness of self-employed individuals or help those who leave self-employment to find jobs in other companies.

Moreover, for self-employed individuals who graduate from the center's training programs, internship opportunities will be provided in partnership with local businesses. This will help them adapt to real-world job environments. Furthermore, if they transition into new businesses outside of food or retail, the government will provide comprehensive support through policy finance to assist their smooth business transition. This will help ensure a seamless shift to new ventures.

(2) Criteria for Assessment

Political Feasibility (4/10)

South Korea's population of approximately 50 million includes around 6 million self-employed individuals. When considering their families, almost 30% of the population is connected to self-employment. This policy may face strong opposition from self-employed individuals and left-leaning politicians who advocate for this vulnerable group. Political interest in policy implementation, law-making, and regulation will be significant. Administrative process challenges, such as building knowledge transfer centers and hiring staff, must also be addressed.

Effectiveness (3/10)

One of the most critical measure is the policy' s ability to reduce the self-employment rate. However, potential side effects, such as increased unemployment or diminished support for small businesses, especially vulnerable ones, must also be considered.

Flexibility (3/10)

Economic conditions change rapidly, and this policy is highly dependent on the economic environment. In the absence of economic crises, self-employment restructuring could gain momentum. However, during economic downturns, such policies might cause high unemployment rate and economic instability. Flexibility in responding to changing economic conditions is essential.

(3) Analysis

Alternative 1: Total 6.5/10

Political Feasibility: 2.5/4

The political feasibility of this alternative is rated at 2.5 out of 4. Increasing regulations is generally challenging to gain public support for, especially in South Korea, where there has been a trend of continuously relaxing start-up regulations. This proposal, which aims to tighten regulations, runs counter to the policy direction followed in recent years. Moreover, with the current National Assembly dominated by the Democratic Party (Cooney and Mackenzie 2024), which is often seen as representing small business owners and self-employed individuals, imposing regulations on self-employment businesses could be a challenging task.

However, the need for restructuring the self-employment sector has been increasingly highlighted, particularly after the pandemic. Even conservative media outlets, such as Chosun Ilbo, have repeatedly emphasized the necessity of restructuring the self-employment sector. Notably, even progressive media, like HANKYOREH, have discussed the issue of excessive self-employment (Ahn 2024). This continuous mention of the need to reduce the self-employment rate in the media suggests that there is growing awareness of the issue.

While the situation remains difficult, the current timing could be the most opportune for pursuing this policy. Despite the challenges, there is a noticeable shift in public discourse, which may provide the necessary momentum to push this initiative forward

Effectiveness: 3/3

This alternative is highly effective in achieving the goal of reducing the proportion of self-employed individuals. By directly limiting the ability to start a business, it is expected to have an immediate impact. Furthermore, it does not require significant government spending, as the government only needs to amend existing laws and regulations to enforce the changes.

Flexibility: 1/3

This alternative is not very flexible. Amending laws requires approval from the National Assembly, which is a time-consuming process and involves considerable effort. Once the law is amended, it is also difficult to revise it again. Additionally, for financial limitations, the Financial Services Commission must issue administrative guidelines to commercial banks, and policy finance institutions will need to revise their internal guidelines. These changes require several procedural steps, such as internal committee reviews. As a result, this alternative is not easily adaptable to external changes and lacks flexibility in responding to unforeseen circumstances.

Alternative 2: Total 7.5/10

Political Feasibility: 4/4

From a political perspective, this alternative is much more favorable compared to Alternative 1. The proposal focuses on establishing a support center rather than imposing new regulations. As a result, many members of the National Assembly are likely to compete for the establishment of these centers in their regions, as bringing a central government facility to their area is often viewed as a significant political achievement. Not only will members of the National Assembly welcome this, but self-employed individuals—the target group for the policy—are also expected to support it. As Cha Nam-su, the Policy and Public Relations Director of the Small Business Association, pointed out, "Self-employed people in the 'service industry' do not require technical skills, meaning they may have limited opportunities outside of service work. Therefore, they should receive certain subsidies and training support for reemployment."(Seo 2023). This support is seen as beneficial to both policymakers and the self-employed, ensuring political favor.

Flexibility: 2.5/3

This alternative is highly flexible because it does not rely on rigid legal amendments like Alternative 1. The center's programs can be adapted to changing industry trends over time. However, the flexibility is somewhat limited by budget constraints, as the center's operations could be affected if funding becomes insufficient. Despite this, compared to the regulatory approach of Alternative 1, this support-focused alternative offers a more adaptable solution.

Effectiveness: 1/3

The direct impact of this policy is less certain compared to Alternative 1, as it requires government funding for establishing and operating the support center, as well as for employing trainers. The financial cost is significant. For instance, during the previous Moon

Jae-in administration, public job creation was a priority, with a budget of 3.1 trillion KRW, approximately 2.38 billion USD, allocated in 2021 for creating 1.028 million public jobs through direct government employment (Yoo and Im 2020). If the Know-How Transfer Center were to hire 1,000 trainers, it could cost approximately 3.0 billion KRW, about 2.3 million USD, annually. This is not an insignificant amount.

Moreover, public employment programs may reduce the incentive for individuals to seek private sector jobs, potentially decreasing the number of positions created in the private sector(Yoo and Im 2020). While the effectiveness of this alternative may be in question due to its reliance on government funding, it could serve as a less disruptive transition compared to the potential sudden reduction in the self-employed sector under Alternative 1, offering a softer landing for those affected by the policy. This makes it more viable in the long term, especially in addressing the negative consequences of rapid self-employment reduction.

(4) Recommendation: Alternative 2

Based on the total scores according to the established criteria, Alternative 2 scores 7.5, which is 1 point higher than Alternative 1. Particularly in the current political landscape, where the opposition party holds a significant majority, political feasibility becomes crucial for smooth implementation. In this regard, Alternative 1 faces a disadvantage due to its lower political feasibility, as it involves imposing stricter regulations on self-employment. However, Alternative 2, which focuses on establishing support centers, is more politically viable, especially in a setting where many legislators might compete for such centers in their regions, benefiting both policymakers and the self-employed.

While Alternative 2 has a clear disadvantage in terms of potential budget requirements, this can be mitigated by starting with one or two centers and gradually expanding them after finding a sustainable business model. Furthermore, considering the fast pace of industry changes, the flexibility of Alternative 2, in adapting to trends and shifts, makes it more adaptable to evolving needs.

This policy is both politically sensitive and administratively complex, requiring extensive coordination among government agencies to build consensus and convince legislators. Therefore, the primary audience for this report includes government agencies with expertise in the subject matter. The report will provide in-depth technical content and relevant statistics, with less focus on public-facing explanations.

The key departments involved are:

- Ministry of SMEs and Startups (responsible for policies on self-employment)
- Ministry of Economy and Finance (which oversees national budgeting and economic policy)
- Ministry of Trade, Industry, and Energy (which oversees industrial policy)
- Ministry of Employment and Labor (which manages employment and vocational education programs)

For effective and streamlined discussion, it is crucial that these four departments collaborate. A joint committee, led by high-level officials from both the Ministry of Economy and Finance and the Ministry of

SMEs and Startups, should be established to lead the project. Furthermore, regular meetings should be held every two weeks with working-level staff from the four ministries, and external experts should be consulted as needed. Once the framework is developed, the policy proposal should be submitted to the Economic Ministers' Meeting for approval.

(5) Implementation Plan

Timeline:

2025: Legal Revisions and Budget Allocation

- First Half: Draft the amendments to the Workers' Vocational Competency Development Act (Not mandatory, but if necessary to ensure stable project implementation).
- Second Half: Conduct legislative hearings, finalize amendments, and pass the revised law.
- September: Include the budget for the Know-How Center in the 2026 budget proposal.
- December: Secure approval of the budget for the center.

2026: Center Establishment

- First Half: Announce the regional selection for the center and issue public calls for proposals.
- Second Half: Finalize the location for the center and begin construction.
- End of 2026: Complete construction and set up administrative frameworks.

2027: Implementation and Launch

- **First Half**: Fully operational, with staff, curriculum, and training programs in place.
- **Mid to Late 2027**: Start providing services to self-employed individuals and conduct ongoing evaluation.

Barriers to Success: Differentiation from Existing Vocational Training Centers:

The Know-How Center needs to clearly distinguish itself from existing vocational training institutions, such as Polytechnic Universities and specialized centers for women re-entering the workforce or for people with disabilities. Both existing models are focused on helping individuals discover and develop new careers. If the Know-How Center overlaps in this regard, it could lead to confusion and policy inefficiencies.

Therefore, the Know-How Center should exclusively target self-employed individuals, providing highly practical, on-site training for real-world business skills. This focus will help avoid redundancy and enhance its distinct role in vocational training for self-employed people.

Limitations of the Approach:

The ultimate goal of the Know-How Center is to reduce the proportion of self-employed individuals, which may result in a rise in unemployment. This could generate significant social costs.

However, Alternative 2 is a more gradual, indirect approach compared to Alternative 1. As a result, its negative impact on the unemployment rate is expected to be less severe. To minimize the impact, supplementary measures can be implemented, such as reallocating the current self-employment support budget to unemployment benefits or social welfare programs. This would help offset the increased unemployment caused by the center's implementation.

There is also a concern that public sector jobs created by the Know-How Center may replace private sector jobs. To address this, the government needs to ensure that the training programs provided at the Know-How Center are distinct from those offered by private vocational schools. This distinction will prevent overlap and maintain private sector competitiveness.

Additionally, after 2–3 years of stable operation, the government could consider transitioning the management of the center to a private business operator. This would foster collaboration between the public and private sectors and minimize the risk of public jobs replacing private sector employment. By doing so, the government would maintain control over the legal and budgetary aspects, while private companies could contribute creative ideas to the center's operation.

6. Conclusion

The unprecedented COVID-19 crisis severely impacted the business environment for small and medium-sized enterprises (SMEs) and Startups owners. This crisis was different from previous economic crises, and governments around the world struggled to minimize the impact of a pandemic they had never faced before. While the pandemic was certainly a crisis, it also delivered a message that if we view it as an opportunity, it can lead to even greater leaps forward. For this reason, a significant portion of this report has been dedicated to examining South Korea's and other countries' responses during the COVID-19 period. The findings indicate that South Korea's response was commendable when compared to other major countries. Particularly, the government's proactive approach, including the establishment of supplementary budgets through multiple meetings to respond to the rapidly changing COVID-19 spread, can be highly praised.

Now, the mission for the South Korean government is to restructure the policy support system to help SMEs and small business owners seize the new opportunities in the reshaped global order. In addition, a contingency plan must be well-prepared for future similar situations. This is why the South Korean government developed comprehensive measures four times between 2022 and 2024 after the COVID-19 pandemic concluded. Ensuring the smooth implementation of these four previously announced measures is of utmost importance. Furthermore, the government needs to carefully consider a fundamental restructuring to address long-term challenges.

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