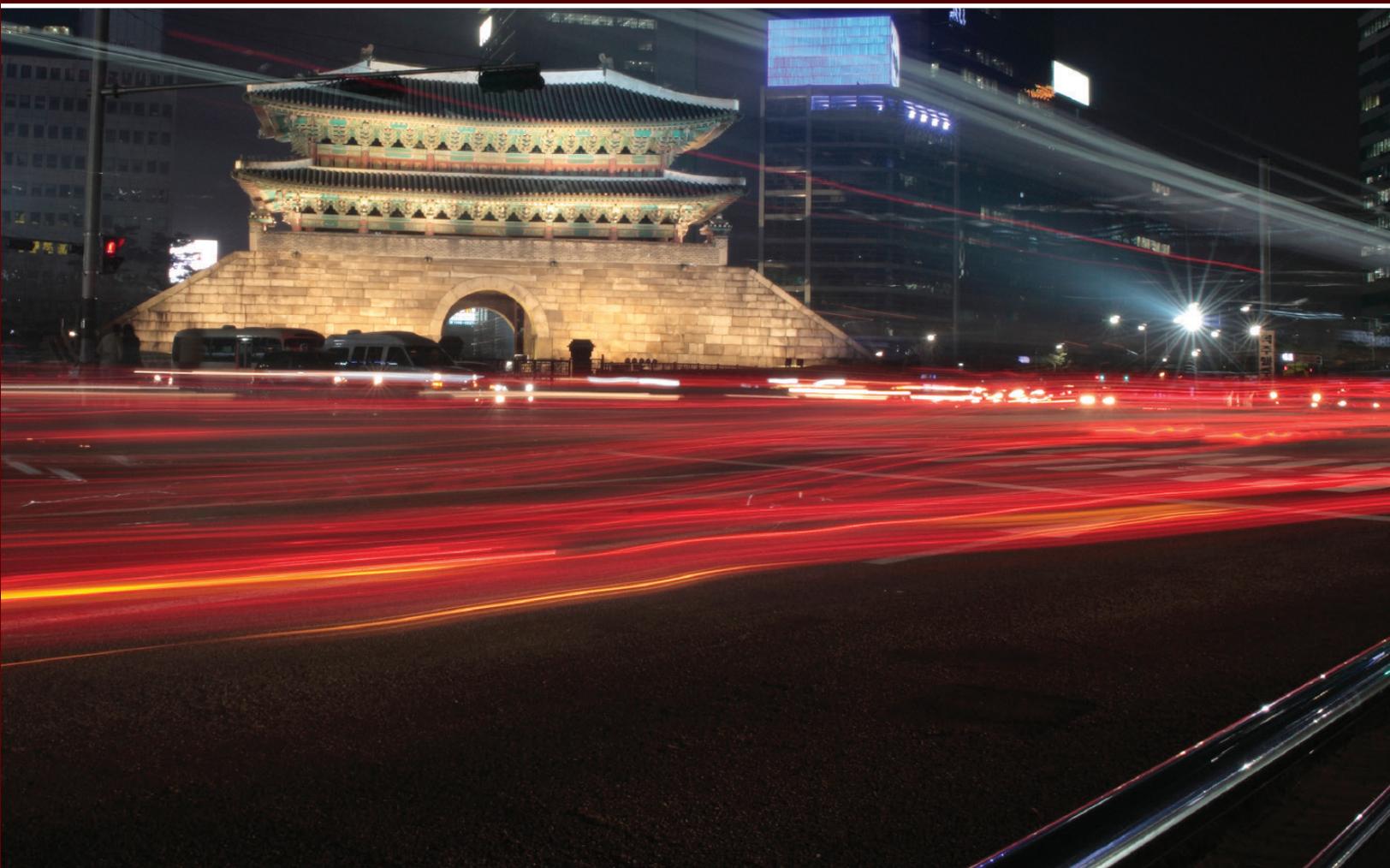




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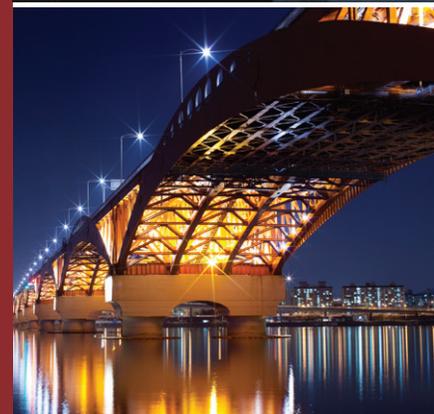
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SPURRING THE DEVELOPMENT OF VENTURE CAPITAL IN KOREA

By Randall Jones

Abstract

Korea has made fostering a “creative economy” a top priority to sustain economic development and avoid the “low-growth trap.” The goal is to shift Korea’s growth strategy from an emphasis on exports by large *chaebols* to one that favors innovation, including venture capital investment in new firms. Korea’s high level of investment in R&D and education give it a strong foundation for such a strategy. However, Korea’s venture capital market is still at an early stage of development and requires a comprehensive strategy to make it a growth driver. First, it is important to expand the role of business angels, who are essential both for financing and mentoring start-ups. Second, the large share of the public sector – which provides about half of venture capital investment – should be limited to avoid crowding out private investors. Third, Korea’s small market for mergers & acquisitions (M&A), which discourages venture capital investors by making it difficult for them to recover their investments, needs to be expanded. Fourth, the newly-established KONEX exchange will need to strike an appropriate regulatory stance to promote venture capital investment. Fifth, it is important to make the most of human resources, including foreign entrepreneurs and both successful and failed entrepreneurs.

Korea's development from one of the poorest countries in the world in the 1950s to an advanced industrial economy was driven by exports produced by large companies, especially those in the business groups known as *chaebols*. However, as Korea has narrowed the gap with the most advanced economies, this catch-up strategy has reached its limit. Strong competition with emerging economies, notably China, in low and medium-end markets, and with advanced economies in high-end markets is making it difficult for Korea to further expand its share of global exports. In addition, the trickle-down effect from exports has declined. In 1998, 1 billion *won* of exports generated value-added of 0.65 billion *won* and 19 jobs. By 2010, the impact, adjusted for inflation, had fallen to 0.56 billion *won* of value-added and 7.9 jobs.¹

Given the increasing weaknesses of the traditional growth model, the government of Park Geun-hye launched a plan in June 2013 to promote a "creative economy,"² which includes three goals:

- Create new jobs and markets through creativity and innovation
- Strengthen Korea's global leadership through a creative economy
- Create a society where creativity is respected and manifested

The success of this strategy depends to a large extent on increasing the rate of business creation and the role of fast-growing young and small firms. Firms that drive one technological wave often fail to participate in subsequent waves, as young firms have a comparative advantage in commercializing radical innovations. Firms less than five years old, regardless of their size, accounted for less than a fifth of total non-financial business employment but generated half of all new jobs between 2001-2011 in OECD countries.

Firm creation, though, is limited by the challenge of obtaining financing. The higher costs and risks of lending to small firms and potential entrepreneurs discourage such loans. To overcome these obstacles, Korea has supported financing for small companies by supplying public funds directly and by guaranteeing loans from private financial institutions since 1979. In addition, the authorities use moral suasion to encourage financial institutions to lend to small firms. Moreover, there are more than 1,300 government programs to provide assistance to small and medium-sized enterprises (SMEs). While these policies have supported lending to small firms, they also have a number of negative side effects. First, they allow weak "zombie" companies to survive thanks to public support. Second, they encourage small firms to remain small so as to stay eligible for public support, thereby foregoing the efficiency gains and economies of scale associated with

growth. Third, government intervention reduces incentives for financial institutions to improve their capacity for credit evaluation of small firms, thus impeding the development of a market for SME financing and, in turn, prompting more government intervention.³

Venture capitalism, defined as the provision of financing at an early stage to high-potential start-up companies, can help overcome the financing problems facing small firms and potential entrepreneurs. Venture capitalists earn money by owning equity in the companies that they invest in, which usually have new technology, often in cutting-edge sectors, such as IT. One of the major tasks identified in Korea's 2013 plan to promote a creative economy is to "create the conditions to easily start new businesses through investment, rather than bank financing."

The State of Venture Capital in Korea

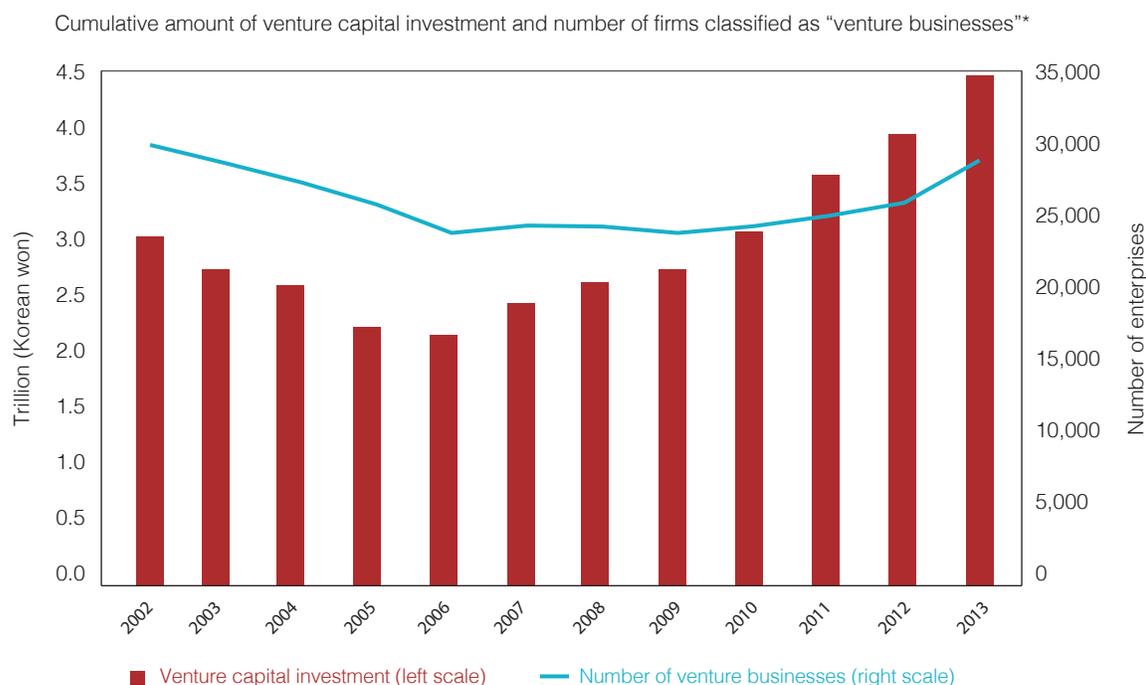
Korea jump-started its venture capital market in 1998 through a direct infusion of capital from the public sector, generous tax incentives and equity guarantees. Developing a venture capital market was part of a strategy to accelerate business restructuring and shift the economy from *chaebols* to start-ups in knowledge-based industries, foreshadowing the current government's strategy. However, these policies fuelled a bubble in the Korea Securities Dealers Automated Quotation (KOSDAQ), the secondary stock market. Following the collapse of the Information and Communications Technology (ICT) bubble, the KOSDAQ, in which about half of the listed firms had received venture capital, fell by 90 percent. Consequently, the venture capital market contracted by a quarter between 2002-2006 (Figure 1).

Korea's venture capital market has rebounded steadily since 2006, with paid-in capital more than doubling by 2013. The total number of firms with venture capital investment on their balance sheets has also been on an upward trend since 2009, although it remains below its level in the early 2000s. The number of firms classified as venture businesses by the government increased more than threefold from around 9,000 in 2000 to more than 29,000 in 2013.⁴ Compared to other OECD countries, venture capital investment was relatively high in Korea at almost 0.1 percent of GDP (on a flow basis) in 2012, the third highest among countries for which data are available, although far behind Israel and the United States.⁵

Korea has great potential in venture capitalism, given its strength in innovation. R&D spending in Korea reached 4.4 percent of GDP in 2012, the highest in the OECD, with the business sector accounting for three-quarters of the outlays, one of the largest shares in the OECD. In addition, Korea's share of world patent filings reached 5.7 percent in 2011, up from 2.3 percent in 2003.⁶ Korea is also well known for

Figure 1

Korea's Venture Capital Market has Rebounded in Recent Years



Source: Korea Venture Capital Association (2013), *Current Situation of Venture Companies* (in Korean), and the Small and Medium Business Association.

* Firms that have received venture capital investment or have been designated by the government as a venture business by spending more than 5% of sales on R&D or having its technology certified by the government.

its educational achievements. In 2012, 64 percent of young adults (25 to 34) had completed tertiary education, the highest in the OECD. Among 15-year-olds, Korea was near the top in science in the 2012 Program for International Student Assessment (PISA) tests.⁷ Moreover, the government's emphasis on promoting a creative economy creates increased opportunity for venture capitalists.

Nevertheless, despite the rebound in venture capital investment, it remains small, accounting for only 0.5 percent of total financing for SMEs, about the same as in 2004 (Table 1). Moreover, Korea's venture capital sector has a number of weaknesses. First, the number of business angels—individuals who provide capital and advice for business start-ups, usually in exchange for ownership equity or convertible debt—has plummeted from nearly 29,000 before the collapse of the ITC bubble to only 619 before rebounding to 4,870 in 2013. This is an obstacle to a vibrant venture capital sector, as the angels play an important role in mentoring start-ups and providing networking, in addition to playing a crucial role in financing start-ups at an early stage.

Second, the venture capital market and SMEs depend heavily on the government. Under the 1997 "Special Law to Promote

Venture Capital Companies," the government can invest directly in venture capital-backed companies. Usually, the government injects public capital into government-managed and sponsored venture capital funds.⁸ Public funding accounted for 33 percent of venture capital funds in 2012, with an additional 12 percent share for public pension funds.⁹ The large government share risks crowding out private investors, in addition to creating concerns about "picking winners."

Third, venture capital funds tend to invest in relatively mature companies rather than in firms at an early stage, when such funding is most critical. Indeed, 55 percent of firms receiving venture capital investment in 2012 were older than three years and 27 percent were more than seven years old. Moreover, the share of investment by venture capital funds in firms less than three years old fell from 40 percent in 2008 to 28 percent in 2012. The limited role of venture capital funds at an early stage of a firm's development reflects a number of factors. In particular, Korea's domestic M&A market is very underdeveloped compared to other advanced countries and the role of foreign firms is insignificant. The share of venture capitalists' earnings that are realized from M&As was only 7 percent in 2011 compared to 69 percent in the United States.¹⁰

Table 1

Sources of SME financing (as a % of the total*)

Year	Banks	Non-banks	Equities and bonds	Venture investment	Government guarantees	Other government	Total
2004	61.1	22.7	0.6	1.2	13.6	0.8	100.0
2006	64.0	22.7	0.8	0.8	11.0	0.7	100.0
2008	68.0	21.0	0.8	0.7	8.9	0.6	100.0
2009	64.7	21.0	1.0	0.7	11.7	1.0	100.0
2010	64.5	20.7	0.7	0.8	12.3	1.1	100.0
2011	67.8	17.2	0.5	0.9	12.3	1.4	100.0

Source: Sohn, S. and D. Kim (2013), *Tasks for the Development of SME Financing*, Korea Institute of Finance (in Korean).

* Government guarantees are assumed to cover bank lending. Some of the lending by government institutions is reported as loans by banks and non-banks.

Cultural factors play a role. M&A activity in Korea historically has been associated with bankruptcy proceedings. Moreover, CEOs generally want to remain with the enterprise that they have created, making them reluctant to participate in M&As. The generally negative attitude of labor unions and non-governmental organizations to M&As is another limiting factor. In addition, government-imposed limits on diversification by the *chaebols* may discourage M&A activity.

Instead of M&As, the primary method for venture capitalists to realize returns from their investment is an initial public offering (IPO), although this is not easy for start-ups due to demanding requirements in the KOSDAQ, such as maintaining a high profitability rate. Indeed, the average net profit rate of newly-listed companies in KOSDAQ ranged from 11 percent to 16 percent over 2008-12, making it two to three times higher than the five percent average of all listed companies.¹¹ Moreover, IPOs take a long time. On average, it takes more than 14 years for start-ups to be listed on KOSDAQ, far exceeding the lifespan of most venture capital funds. Indeed, only 78 of 393 funds in 2010 were more than six years old.¹² As a result, venture capital funds tend to invest in relatively mature companies. In sum, a major weakness of the venture capital sector is that too few firms receive early-stage finance.

Fourth, while the government has emphasized support to the supply side of the venture capital market, demand-side conditions appear to be the key constraint. The Korea Venture Capital Association states that it is becoming increasingly difficult to find good investment opportunities in Korea, leading some of its members to establish operations overseas, particularly in China and Vietnam.¹³ In addition, there are complaints that the most talented individuals in Korea work at *chaebols* or in the government rather than becoming entrepreneurs. A number of OECD countries are shifting their policy orientation towards

measures to strengthen the demand side by enhancing the quality of the business proposals that entrepreneurs present to potential funding sources. Such an approach recognizes that the development of the venture capital industry has followed, rather than preceded, the availability of attractive opportunities in other countries.

Fifth, reinvestment by venture entrepreneurs who have already achieved success is relatively small for a number of reasons, including the tax system and financial market practices. For example, when shares are sold at more than 30 percent above the market price, the sale is subject to the maximum gift tax of 50 percent instead of the 11 percent capital gains tax. Such high tax rates limit the scope for reinvesting gains in the venture capital market. Finally, the social stigma attached to failure limits the opportunity for entrepreneurs to try again.

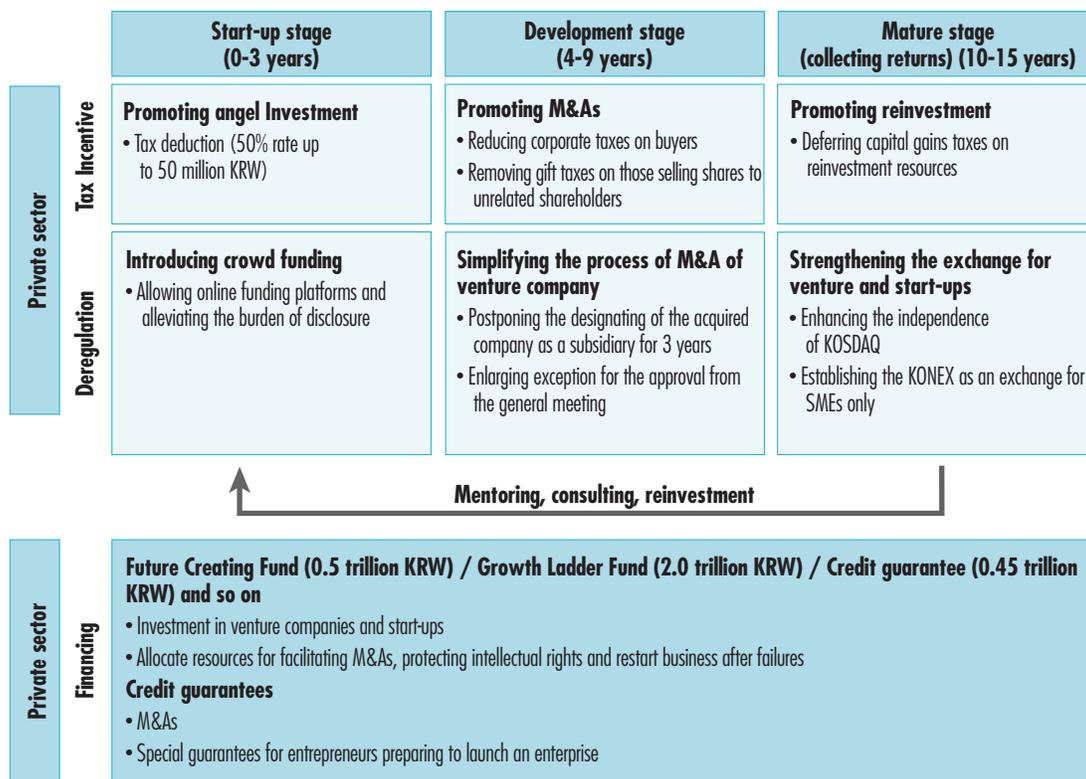
Policies to Develop Venture Capitalism and Promote a Creative Economy

In May 2013, the government launched the “Measures to develop a virtuous cycle in the venture start-up capital ecosystem” to address obstacles that hinder the development of a sound venture capital sector (Figure 2). The initiative includes measures to:

- Promote angel investment and introduce crowd-funding
- Expand public sector funding for venture capital
- Develop the market for M&As involving venture businesses and business angels
- Strengthen the role of KONEX and KOSDAQ for start-ups
- Create an environment that encourages reinvestment by both successful and failed entrepreneurs

Figure 2

The May 2013 “Measures to improve the venture start-up ecosystem”



Source: Ministry of Strategy and Finance, Ministry of Science, IT and Future Planning, Ministry of Justice, Ministry of Trade, Industry and Energy, Financial Supervisory Committee, Fair Trade Commission and Small and Medium Business Administration (2013), *Policy Measures to Create a Virtuous Cycle in the Venture Start-up Capital Ecosystem* (in Korean).

Promoting Private-Sector Financing through Business Angels and Crowdfunding

It is crucial to promote a shift from loans to investment-oriented financing of start-ups, given the critical importance of risk-sharing between entrepreneurs and their sources of financing during the first three years of a firm’s existence. Business angels play an important role in this regard. Government support for business angels has been available in Korea for some time, including eight public funds that match the investments by private investors. In addition, tax incentives for angel investors will be strengthened. For example, the amount of venture capital investment that they can deduct from their aggregate income in calculating personal income tax will be raised from 30 percent to 50 percent of that investment. Tax incentives have been found to increase both the number of angel investors and the amount invested. In addition to financing, the expertise, networks and close interaction that business angels bring to start-ups is essential for their success. The government should support the development of the necessary quality, skills and experience among angel investors.

Crowdfunding via online platforms will be introduced to allow start-ups to receive financing from a large number of small investors. Crowdfunding is defined as the collective effort of many individuals who network and pool their resources, usually through social networking via the Internet, to invest in new projects. It thus creates a new channel for ordinary citizens to fund companies in exchange for shares in the business. Crowdfunding helps novice entrepreneurs obtain financing without red tape, thereby saving time and money. Gaining hundreds of investors via websites could also increase online popularity for a start-up as investors tweet and post about the company so as to protect their investment. By 2011, there were an estimated 700 platforms, primarily at an early stage of financing, raising a total of around \$1.5 billion globally. However, with the legal and institutional framework still in its initial stages, crowdfunding’s role as a source of start-up financing remains marginal.

The Korean government is also developing online platforms, such as the “Infinite Imagination Start-up Platform,” launched in 2013 to allow potential entrepreneurs to propose ideas that are then voted on by the online community. Those with the

winning ideas can start a business or sell the idea to someone else and share the profits with the company that purchases it. The objective is to provide potential entrepreneurs with help in design, marketing and production. The program began with 30 to 40 projects in 2013 and expanded to 100 in 2014.

However, Korea should proceed carefully with its plan to make crowdfunding a major source of financing. From a company perspective, relying on crowdfunding would mean losing the guidance and networks provided by seasoned angel investors. In contrast to business angels, who tend to spend considerable time and money on due diligence before investing, investors in crowdfunding are primarily members of the general public. In addition, entrepreneurs with poor proposals who are rejected by experienced investors after detailed due diligence might turn to crowdfunding, creating the risk of fraud. Moreover, an idea launched via the Internet is easily copied. For such reasons, crowdfunding is not currently allowed in most OECD countries, although active crowdfunding platforms exist in Belgium, France, Germany, the Netherlands, the United Kingdom and the United States. In the United States, firms can sell up to \$2 million of unregistered securities through crowdfunding through an exemption from Securities and Exchange Commission regulations. Individual investment is restricted to \$10,000 or 10 percent of the investor's annual income—whichever is less. The need for investor protection depends on the amount of money raised. If large sums are raised through individual investors using crowdfunding, stronger investor protection is needed, although this would negate the advantage of crowdfunding, i.e. less regulation.

Foreign investment is playing an increasingly large role in Korea. According to the Small and Medium Business Administration (SMBA), foreign assets invested in Korean start-ups increased from 124 billion (\$114 million) *won* in 2003 to 428 billion *won* (\$395 million) and it is expected to reach 700 billion *won* (\$645 million) in 2014. The SMBA is negotiating with foreign venture capital firms to create a "Korea Fund."

An Appropriate Role for Public Financing of Venture Capital

The Korean government has created a number of programs to fund venture capital investment (Table 2). For example, it launched the "Future Creation Fund," totaling 500 billion *won* (\$460 million) to finance start-ups, with the private sector providing two-thirds of the Fund. Of the total, 200 billion *won* is reserved for investment in start-ups and firms less than three years old. To encourage private-sector investors, they will receive a certain share of the profits upfront before dividing the rest with the government. In the case of a loss, the government will bear up to 20 billion *won* alone before private investors suffer any loss.

Given that public funds account for nearly half of venture capital investment, it is important to avoid an excessive supply of public funds relative to the number of high-quality investment projects, which would tend to crowd out private investment. Inevitably, a portion of such large public support goes to firms that are not really venture capital-backed enterprises. The success of such public investment program depends on their design and implementation. The government's emphasis on a fund-of-funds approach, in which it invests primarily in venture capital firms rather than directly in start-up firms, has been identified as good practice internationally. Such an approach is more effective because it channels public funds through existing market-based systems. In addition, public funds should be utilized where market failure is most serious, suggesting a focus on early-stage financing where funding shortages are most likely.

Promoting M&As to Help Venture Capitalists

Korea is trying to facilitate M&As involving new start-ups, thereby allowing investors to withdraw their capital at an early stage. First, the government will provide financial support for M&As including venture capital-backed firms. For example, the newly-established Growth Ladder Fund of 2 trillion *won* (\$1.8 billion) will provide financing to firms that do not qualify for bank loans, while the Korea Credit Guarantee Fund will provide guarantees of up to 100 billion *won* (\$92 million) for private financing (Table 2). Second, M&As can receive more favorable tax treatment; for sellers, the 11 percent capital gain tax will be applied instead of the gift tax, whose rate goes up to 50 percent. Third, regulations related to M&As are also being liberalized; 1) when large companies buy shares in a small company, the designation of the smaller firm as a subsidiary can be postponed for three years, thus avoiding the regulations imposed on *chaebol* affiliates; and 2) when the merger of two SMEs creates a firm too large to be classified as an SME, the new entity can nevertheless maintain the legal status of SME for three years, thus allowing favorable treatment. Fourth, the legal process for M&As is being deregulated. In some case, M&As will only need to be approved by the board of directors rather than by a vote at the shareholders' general meeting.

Such policies should help expand Korea's M&A market, which is relatively small. However, the M&A market is limited by the early stage of development of Korea's capital market and the cultural factors noted above, which will be more difficult to overcome. Finally, a successful launch of KONEX, supported by the plan to relax the legal requirements, and a larger role for KOSDAQ, would also help promote both M&As and IPOs.

Table 2

New Programs to Promote a Creative Economy

Program	Objective	Funding (Korean won)	Organization responsible
Future Creation Fund	Promoting investment-oriented financing	500 billion ¹	KVIC
Special Credit Guarantee for Entrepreneurs	For setting up a firm	50 billion ²	KOTEC
Fund for M&As	To promote M&As	200 billion	Growth Ladder Fund ³
Credit guarantees for M&As between small firms	To promote M&As	100 billion	KCGF
Fund for Next Venture Generation	Facilitating re-investment by successful venture entrepreneurs	100 billion	KVIC
Intellectual Property Rights Fund	To buy patents and technology from small firms	200 billion	Growth Ladder Fund ³
Restart Support Fund	To give a second chance to failed entrepreneurs	100 billion ⁴	Growth Ladder Fund ³

Source: 2014 *OECD Economic Survey of Korea*.

¹ The private sector provides 350 billion *won*. Of the total, 200 billion *won* is reserved for firms less than three years old.

² Up to 500 million *won* per entrepreneur.

³ The KDB and IBK put money into this Fund along with private financial institutions.

⁴ The Fund is to increase from 40 billion *won* in 2013 to 100 billion *won* in 2017.

Expanding the Roles of Exchanges: KONEX and KOSDAQ

Promoting venture capital also requires increasing direct financing from capital markets, which play a very minor role for start-ups at present. To this end, the government established the Korea New Exchange (KONEX) in July 2013. Greater investment-based financing, as opposed to bank lending, depends in part on the success of KONEX in fulfilling its role as an exchange for start-ups and avoiding the path of KOSDAQ, which moved away from this role. KONEX has eased the difficulties facing start-ups younger than three years by significantly relaxing the requirements for listing and disclosure. For example, the number of mandatory disclosure items was reduced to 29 compared to 64 in KOSDAQ. KONEX also facilitates the participation of smaller companies, requiring firms to meet only one of three listing conditions.¹⁴ In addition, the preferential tax incentives currently given to investors in KOSDAQ will be expanded for those in KONEX. For major shareholders, who own more than 4 percent of shares or shares whose value exceeds 4 billion *won* (1 billion *won* in the case of KONEX), a preferential capital gains tax rate is applied.¹⁵ If a venture capital fund buys new shares in companies that are listed in the KONEX that are less than two years old, corporate taxes

on capital gains and dividends and the securities transactions tax are not applied.

The key to the sound development of KONEX is to correctly balance investor protection and market dynamism. Excessive investor protection would make the market unattractive to companies and investors alike. On the other hand, inadequate investor protection would be harmful to the market's development as it would increase the risk of moral hazard, as well as illegal activities by listed companies. On the investor side, it could also lead to irrational investments and possibly a bubble, as occurred in KOSDAQ in the late 1990s. Disappointed investors, who were negatively affected by the burst of a bubble or bad behavior by listed companies, would then leave the market. Therefore, a balanced regulatory stance is necessary.

The government will also make KOSDAQ more open to start-ups. This exchange, which was originally established to support venture businesses, has been criticized as being ill-suited for innovative companies hoping to raise capital due to its conservative management focusing on investor protection.¹⁶ In 2012, only 21 new companies were listed in KOSDAQ, compared to 171 in 2001. As noted above, it takes more than 14 years on average for start-ups to be listed on KOSDAQ. To reorient KOSDAQ toward helping venture

businesses raise capital, its management will be separated from the Korea Stock Exchange (KSE), the main exchange, which lists mainly large firms, and KOSDAQ's listing committee will include more specialists on technology. In addition, the requirements for an IPO are being relaxed while not significantly reducing investor protection.¹⁷

Developing the Necessary Human Capital

Entrepreneurship is another important aspect of promoting venture capital investment. As President Park stated at Davos in 2014, entrepreneurship is the “driving force of sustainable, inclusive growth.” In Korea, however, top students from the leading universities tend to choose prestigious jobs in *chaebols* or the government and it is difficult to overcome such traditional values to make entrepreneurship more attractive. Effective entrepreneurial education in secondary and tertiary education would be helpful. The government is taking useful steps, such as encouraging public research institutes to establish start-ups using their own technology and ideas. To better tap foreign entrepreneurship and technology, visas will be extended to foreigners willing to start a business in Korea. Although the visas are for only two years, they can be renewed if the foreigners continue doing business in Korea. Moreover, start-up visa holders who stay in Korea for three years or more, attract investment of at least 300 million *won* (\$276 thousand) and hire two or more Korean citizens are eligible for permanent residency.

The government hopes to establish a conduit through which the capital and know-how of successful entrepreneurs can be channeled to new start-ups. When entrepreneurs reinvest capital gains received from selling shares in existing companies, the capital gains tax on the sales is deferred until the entrepreneur sells the shares in the second venture. In addition, the government established a “Fund for Next Venture Generation” for reinvestment by successful venture entrepreneurs (Table 2). The fund was set at 100 billion *won* (\$92 million) in 2013, with the government providing up to 60 percent of that amount, with the remainder coming from the entrepreneurs.

Thanks in part to generous public funding, financing does not appear to be a severe obstacle at present to venture capital investment. Instead, the problem appears to be on the demand side, as venture capital investment is slowed by a lack of attractive business opportunities. A number of countries are shifting the orientation of programs to the demand side to enhance the quality of the investment projects proposed by venture businesses. As noted above, the development of the venture capital industry cannot proceed more rapidly than the creation of attractive projects.

Finally, the lack of a second chance for those who fail in a business venture makes potential entrepreneurs hesitate to launch risky start-ups. In the United States for example, the

ten-year survival rate for start-ups is 35 percent. The lack of second chances for failed entrepreneurs in Korea prevents the experience and knowledge gained from past failure to benefit the venture capital market. The government should ensure that entrepreneurs who experience “honest failure” have additional opportunities to create new ventures. The government will expand the “Restart Support Fund,” which is exclusively reserved for failed entrepreneurs who want to launch a new company, from 40 billion *won* in 2013 to 100 billion *won* (\$92 million) in 2017 (Table 2). The credit recovery of failed entrepreneurs who are already personally delinquent should also be facilitated.

Conclusion

Korea has been among the fastest growing OECD countries during the past decade. However, subdued growth in recent years has revealed structural problems, such as high household debt, a lagging service sector and weak SMEs. This has raised concerns about Korea's traditional catch-up strategy led by exports produced by large *chaebol* companies. The success of Korea's new growth strategy of fostering a “creative economy” depends in large part on developing the venture capital sector based on a comprehensive strategy that: 1) expands the role of business angels, who are essential both for financing and for mentoring start-ups; 2) limits government financing to avoid crowding out private-sector investors; 3) develops Korea's currently small market for mergers & acquisitions to help venture capital investors recover their investments; 4) develops the newly-established KONEX exchange to promote capital-market financing for start-ups; and 5) promotes effective use of human resources.

Randall S. Jones is the Head of Japan/Korea Desk for the Organization for Economic Co-operation and Development.

¹ *Extended 2010 Input-Output Tables* (in Korean), Bank of Korea (2012).

² *The Park Geun-hye Administration's Creative Economy Blueprint: “Creative Economy Action Plan and Measures to Establish a Creative Economic Ecosystem,”* <http://english.mosf.go.kr/eco/view.do?bcd=E0005&vbcd=N0001&seq=3289&bPage=1>.

³ R. Jones and M. Kim, “Promoting the Financing of SMEs and Start-ups in Korea,” *OECD Economics Department Working Paper*, No. 1162 (2014).

⁴ In contrast to other countries, though, a Korean firm that does not receive investment from a venture capitalist can still be designated as a venture business by spending more than 5 percent of sales on R&D or having its technology certified by the government.

⁵ International comparisons of venture capital are found in the OECD's *Entrepreneurship at a Glance*.

⁶ *OECD Science, Technology and Industry Outlook 2012*.

⁷ *PISA 2012 Results: What Students Know and Can Do (Volume I)*, OECD (2013).

⁸ S. Lim and Y. Kim, “How to Design Public Venture Capital Funds: Empirical Evidence from South Korea,” *Journal of Small Business Management* (2014).

⁹ *Policy Measures to Create a Virtuous Cycle in the Venture Start-up Capital Ecosystem* (in Korean), Ministry of Strategy and Finance, Ministry of Science, IT and Future Planning, Ministry of Justice, Ministry of Trade, Industry and Energy,

Financial Supervisory Committee, Fair Trade Commission and Small and Medium Business Administration (2013).

¹⁰ This compares earnings from M&As as a share of earnings from IPOs and M&As combined. The data are reported by the Korea Venture Capital Association.

¹¹ *Policy Measures to Create a Virtuous Cycle in the Venture Start-up Capital Ecosystem* (in Korean), Ministry of Strategy and Finance, Ministry of Science, IT and Future Planning, Ministry of Justice, Ministry of Trade, Industry and Energy, Financial Supervisory Committee, Fair Trade Commission and Small and Medium Business Administration (2013).

¹² J. Yang, H. Noh and H. Lee, *Proposals for Enhancing Financial Support for SMEs*, Woori Finance Research Institute (February 2013) (in Korean).

¹³ *Industry and Technology Policy in Korea*, OECD (2014).

¹⁴ The three conditions are: 1) sales revenue of more than 1 billion *won* (\$921 thousand); 2) capital of more than 0.5 billion *won*; or 3) profits of more than 0.3 billion *won*.

¹⁵ In both KOSDAQ and KONEX, the capital gains tax is exempted for minor shareholders.

¹⁶ *Policy Measures to Create a Virtuous Cycle in the Venture Start-up Capital Ecosystem* (in Korean), Ministry of Strategy and Finance, Ministry of Science, IT and Future Planning, Ministry of Justice, Ministry of Trade, Industry and Energy, Financial Supervisory Committee, Fair Trade Commission and Small and Medium Business Administration (2013).

¹⁷ For example, the minimum age requirement for firms (currently three years) and the period during which major shareholders should retain their shares (currently one year) will be reduced.

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