



Global Venture Investment Attraction Status and Improvement Plans

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The Need to Attract Global Venture Investment

- **Korea's venture industry and venture capital (VC) market requires increased foreign capital to expand the global openness of the domestic venture ecosystem despite its development through government fostering policies.**
 - The government has established multiple policy funds to attract private investment, but diversifying financial sources through global venture investment remains crucial.
 - Korea established the SME Fund-of-Funds (FOF) in 2005, the Agriculture, Forestry, Fisheries and Food FOF in 2010, and the Korea Development Bank Policy Fund in 2018.
- **Attracting global venture investment can catalyze GDP growth and capital market development while promoting the internationalization of domestic venture companies.**
 - Companies that have attracted global VC investment, such as Viva Republica (mobile financial app operator), Woowa Brothers (food delivery platform), and Moloco (ad-tech solution provider) have successfully expanded globally.

Measures to Attract Global Venture Investment and Its Achievements

- **Despite implementing comprehensive initiatives to attract global venture investment, Korea's global VC participation remains low at 2.1% of the domestic venture investment market.**

[Table 1] Status of Measures to Attract Global Venture Investment

Measures	Contents
Venture and Startup Funding Ecosystem Virtuous Cycle Plan (May 2013)	Create an overseas VC global fund to invest in domestic startups and support their international expansion
Innovation Plan for Startup Incubation Policy (Apr. 2016)	One-stop support from localization to global investment attraction to foster overseas-oriented startups
K-startup Global Entry Strategy (Sep. 2022)	Customized support utilizing private capabilities and environment for overseas capital to flow into Korea
Startup Korea Comprehensive Plan (Aug. 2023)	Realizing a global startup nation, promoting inbound and outbound globalization
Plan to upgrade the venture investment market for venture and startup globalization (Oct. 2024)	Promoting global investors' participation in domestic venture investment and the globalization of domestic startups and venture capitalists

Source: Adapted from the respective measures' materials



- However, global VC investment is low compared to total venture investment in Korea, at 4.9% in 2022 and 2.1% in 2023.

[Table 2] Global VC Investment in Korea as a Percentage of Domestic Venture Investment

(KRW 100 million, %)

Category	2019	2020	2021	2022	2023
Global VC(a)	2,937	814	9,895	6,097	2,318
Domestic VC(b)	75,278	8,0962	159,371	124,706	109,133
Global VC investment ratio(a/b)	3.9	1.0	6.2	4.9	2.1

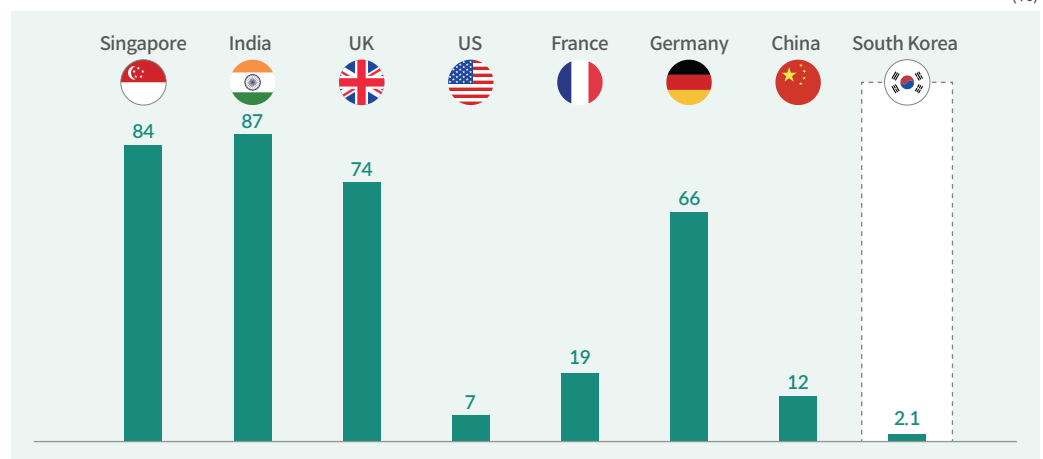
Note: Domestic VC refers to investment by venture capital firms, venture investment associations, and new technology venture financiers and associations.

Source: Ministry of SMEs and Startups and Preqin, a global private equity and venture capital market research firm

- In contrast, the global VC investment ratio is 84% in Singapore, 74% in the UK, and 66% in Germany.

[Figure 1] Global VC Investment Ratio in Major Countries in 2023

(%)



Source: Korea's ratio is from the Ministry of SMEs and Startups, and the ratios of other countries are from Preqin.

Overseas VC Global Fund's Investment in Korea

- The Ministry of SMEs and Startups has raised overseas VC global funds through the SME FOF, but the amount of investment in Korea is only 10.7% of the total subsidiary funds raised.

- The SME FOF has been managing the overseas VC global fund since 2013, which invests in funds managed by overseas VCs.

[Table 3] Overview of Overseas VC Global Funds

(%)

Category	Content
Purpose	The SME FOF aims to invest in funds managed by excellent overseas venture capitalists to help domestic SMEs and venture companies attract overseas investment and support overseas expansion.
Status	The FOF has invested KRW 700.5 billion in 67 global funds and is managing funds worth KRW 11.7 trillion (2013-Oct. 2024).
Investment obligations	An amount equal to or greater than the contribution of the global fund must be invested in Korean companies.

Source: Adapted from data by the Ministry of SMEs and Startups

- Through the overseas VC global fund, a total of KRW 11.6537 trillion was raised for subsidiary funds, with KRW 1.2515 trillion in investments in Korea, representing 10.7% of total funds raised.
- Currently, the ratio of investment in Korea is 1.8 times the total FOF investment.

[Table 4] Overseas VC Global Fund Formation and Investment Status

(KRW 100 million)

Year	FOF investment(a)	Other investments from overseas VCs, etc.(b)	Subsidiary fund formation (a+b)	Investments in Korea	No. of companies investing in Korea ¹⁾
2013	96	2,025	2,121	391	9
2014	400	3,401	3,801	561	19
2015	736	2,544	3,280	1,723	47
2016	378	4,957	5,335	899	49
2017	1,160	8,550	9,710	1,196	31
2018	414	750	1,164	881	34
2019	815	10,724	11,539	1,173	87
2020	120	600	720	1,227	92
2021	1,274	29,674	30,948	1,156	76
2022	893	26,753	27,646	1,367	109
2023	719	19,554	20,273	898	42
2024	Forming	Forming	Forming	1,043	34
Total	7,005	109,532	116,537	12,515	629

Note: 1) Number of companies investing in Korea includes duplicates.

1. As of the end of November 2024

Source: Ministry of SMEs and Startups

Barriers to Attracting Global Venture Investment

- Factors hindering global VCs from investing in Korea include regulations restricting investment autonomy, limited exits, language barriers, lack of networks, and a lack of VC capital.

[Table 5] Barriers to Attracting Global Venture Investment

Category	Content
Regulations restricting investment autonomy	Regulations include restrictions on investment targets for venture capital funds
Limited exits	In Korea, where M&As are not very mature, exit strategies are limited, as they are mostly centered on IPOs and liquidation.
Language barrier	It is difficult for global VCs to understand the vision of domestic companies.
Lack of network	There are few networks due to Korea's relatively short investment history
Lack of VC capital	There is a lack of VC capital for raising large-scale funds, which are essential for global investment, and a lack of policy support.

Source: Adapted from the Science and Technology Policy Institute (Diagnosis and Implications of Globalization of Venture Capital, Oct. 2024), Korea Institute of Startup & Entrepreneurship Development (Status of Regulatory Obstacles and Improvement Plans for Startups' Global Expansion, Apr. 2023), and field surveys of overseas VCs



- Korean companies primarily operate in Korean, requiring translation services for documentation. Thus, communication barriers arise when founders lack English fluency, making it challenging to convey their company vision.
- Korean companies show limited participation in global investment bank events hosted by Morgan Stanley and JPMorgan. Increased participation in these events is crucial for enhancing international visibility.

Measures to Attract Global Venture Investment

▪ The government is preparing measures to deregulate and streamline investment procedures to attract global investment.¹⁾

- The recent amendment of the Venture Investment Promotion Act (enforced in Dec. 2023) has improved the venture investment system to Silicon Valley levels, including introducing a conditional equity conversion agreement and a venture fund governance structure.

[Table 6] Amendments to the Venture Investment Promotion Act to Deregulate

Category	Content
Introduction of a conditional equity conversion agreement	Convertible bonds issued as loans to early startups, convertible to equity once valuation is set
Venture fund governance structure	A mechanism where venture capital partnerships establish SPVs (Special Purpose Vehicles) that can borrow from financial institutions and use these funds for large follow-on investments

Source: Adapted from the National Assembly Bill Information System

- The government is also planning to ease restrictions that limit investment flexibility.
 - E.g., Article 51 of the Venture Investment Promotion Act, which mandates that venture investment associations invest at least 40% in startups and venture companies within three years of registration, limits investment autonomy, so the investment target can be expanded to include all SMEs.
- An integrated manual on foreign exchange transactions and tax returns for overseas investors will be published and consulting support for domestic venture investment procedures will be provided.
 - Korea Venture Investment Corp. (KVIC) will establish a global venture investment reporting center (targeted for 2025) to consolidate foreign exchange transaction reporting procedures distributed among the Bank of Korea, foreign exchange banks, etc. and conduct the procedures on behalf of foreign investors.
- **However, more efforts are needed to strengthen the international visibility of Korean companies by expanding their global network and improving support for policy funds such as overseas VC global funds, M&A funds, and secondary funds.**
 - The international visibility of Korean companies can be strengthened by participating in global investment banking events, enhancing and facilitating investment pitches to overseas VCs, etc., through cooperation with KVIC Global Offices (US, China, Singapore, and Europe) and overseas diplomatic missions.
 - The global funds of overseas VCs are obligated to invest at least one times the amount of the FOF's investment in Korean companies, promoting these companies worldwide; thus, expanding the scale of investment in SME FOF is vital.
 - However, it is necessary to prepare a plan to encourage the participation of domestic VCs in the Global Fund to help them attract overseas funds.
 - Fund collection methods other than IPOs should be diversified through M&A funds and secondary funds.

1) Joint work of related ministries and agencies, "How to Leapfrog Advanced Venture Investment Market for Venture and Startup Globalization," Oct. 2024.