



# Major Issues in Categorizing Businesses by Type: Supporting Small Businesses through Improved Categorization

## | Summary |

The Korean government is considering providing a fourth round of disaster relief funding to support small businesses hard-hit by the prolonged social distancing measures implemented to contain the spread of COVID-19. However, determining which businesses should benefit from this support is quite tricky.

### ■ Challenges

Legal business entities such as microenterprises and privately-owned companies are not the same as struggling, self-employed small businesses.

During the second and third rounds of support, only privately-owned microenterprises were eligible for relief. The amount of financial support available varied depending on whether businesses were ordered to limit the number of customers, had restrictions placed on business hours, or suffered losses in revenue.

Small business establishments categorized neither as microenterprises nor as privately-owned companies have been excluded from receiving support, regardless of the economic hardship they face. Moreover, privately-owned microenterprises (many of which are far from being small businesses with narrow operating margins) are not excluded from receiving support.

### ■ Policy Proposals

To ensure that small businesses receive the support they need, enterprise size (fewer than 10 employees) must be the primary eligibility criterion for the fourth round of disaster relief funding. After this primary criterion is applied, eligibility can be narrowed or expanded based on financial need or economic vulnerability.

This primary eligibility criterion will benefit 74,000 privately-owned companies with five to nine employees. Additionally, 254,000 incorporated microenterprises and 82,000 incorporated companies with five to nine employees will become eligible for relief.

A further eligibility criterion has been introduced for the fourth round of disaster relief: A business owner that also works for another company and is insured under the national health insurance scheme (in which employees and employers split monthly premiums) is now ineligible for disaster relief. Alternatively, a business owner having paid tax in an amount over a certain threshold would also be ineligible for relief.

The new eligibility criteria will bolster support for small businesses economically-impacted by the COVID-19 pandemic and ensure the equity of the disaster relief plan.

## I. Background

### ■ The Economic Impacts of COVID-19

Self-employed businesses took a direct hit from the social distancing measures that were necessary to protect the public from the COVID-19 contagion. Beginning last year, the government provided three rounds of disaster relief funding.

Table 1. Summary of the First Three Rounds of Disaster Relief

|                           | Period    | Businesses  |                | Workers   |                | Low-income Population          |                                       |  |
|---------------------------|-----------|---|----------------|---|----------------|--------------------------------|---------------------------------------|--|
|                           |           | Beneficiaries   | Support Amount | Beneficiaries   | Support Amount | Beneficiaries                  | Support Amount                        |  |
| 1st Disaster Relief Round | May 2020  | Entire Population<br>KRW 400K to 1M Depending on Number of Family Members per Household               |                |   |                |                                |                                       |  |
| 2nd Disaster Relief Round | Oct. 2020 | Microenterprises (sales reduction, gathering restriction, opening hour restriction, business closure) | 500K - 2M      | Workers in Special Employment Arrangements, Independent Contractors | 500K - 1.5M    | Low-income Marginal Households | 400K- 1M                              |  |
| 3rd Disaster Relief Round | Jan. 2021 | Microenterprises (sales reduction, gathering restriction, opening hour restriction)                   | 1M - 3M        | Workers in Special Employment Arrangements, independent contractors | 500K- 1M       | Low-income Workers             | Max. 20M in loan (1.5% interest rate) |  |
|                           |           |   |                | In-home care providers, employed taxi drivers                       | 500K           |                                |                                       |  |

Source: Author's summary of information from ROK policy briefing and government press releases

In addition to support in cash, various financial support measures including tax benefits, job stability funds, employment retention support programs, and support for utility bills and rent are available. In total there are 162 COVID-19-related support programs (<https://www.korea.kr/etc/covid19List.do>).

Details of a fourth round of disaster relief are now being discussed. If the fourth relief program is to be applied on a selective basis, businesses that meet the criteria of being microenterprises are expected to be the main beneficiaries. The possibility of universal

support, type of support, amount, period, and eligibility are yet to be finalized.

One of the possibilities currently being discussed is whether to include small business establishments with five or more employees and sales of KRW 400 million or more in order to expand the reach of the support program.

Despite consensus on the purpose of disaster relief (targeting small businesses in the wake of the COVID-19 outbreak), it is extremely difficult to determine which businesses are eligible for support under the policy. Since using the criteria of sales and employment to distinguish different types of businesses does not necessarily result in the effective screening of eligible businesses, it is critical to consider statistical characteristics of small business establishments in order to minimize the number of those that are left out but which still are in great need of support.

The minimum requirement for the third round of disaster relief was legal status as a privately-owned microenterprise. In principle, non-profit organizations were ineligible for the third round of support. However, social enterprises, cooperatives, and consumer cooperatives may have been deemed eligible for support based on the results of a vetting process. The majority of incorporated microenterprises were excluded from receiving support. Thus, the de facto minimum requirement cannot be met by only being a microenterprise; the applicant must be a *privately-owned* microenterprise.

Privately-owned companies and microenterprises are conceptually different entities. Preliminary research has found that, according to Statistical Business Register 2018, there are 120,000 privately-owned companies that are not microenterprises and 250,000 microenterprises that are not privately owned.<sup>1)</sup> To verify whether there are reasonable grounds for small businesses to be discriminated against and excluded from receiving support, it is necessary to review and analyze the practice of business categorization and the statistical characteristics of businesses.

### ▣ New Ways to Classify Struggling Small Businesses to Ensure Equity and Effectiveness in Disaster Relief Measures

In this paper, various eligibility criteria are statistically compared to identify criteria that need to be improved or maintained to ensure only eligible beneficiaries that fit the purpose of the policy support measures are selected.

To help readers understand the complicated categorization of different types of businesses, definitions of the terms self-employed worker (worker), self-employed

1) Gil, Eunsun, et al., (2020) Concept of Small Establishments and Analysis of their Production and Employment Characteristics by Industry

business (company), micro-enterprise, privately-owned company, and small establishment are provided and the basic elements of these terms is explained.

Based on the statistical characteristics of different types of businesses, the study compares privately-owned microenterprises against other small establishments that are excluded from receiving support.

### ■ Improved Eligibility Criteria

In previous rounds of support, compensation for lost revenue was provided only to privately-owned microenterprises; in this study the characteristics of newly-eligible groups are described. The work also sheds light on previously eligible privately-owned microenterprises (which were entitled to support without any screening) but which should be excluded. An explanation is given as to how this screening is to be implemented administratively. In addition, the study specifies eligibility criteria that should be maintained due to a lack of actual benefits versus the administrative costs of their revision.

## II. Definition of Types of Businesses and Basic Status

The following section provides the definitions of key terms used in this report. Terms defined include: self-employed worker, self-employed business, microenterprise, privately-owned company, and small establishment.

**Self-employed worker:** A term to describe a worker, not a business entity. However, it is often used to refer to a business entity. It is difficult to verify business status administratively. Basically, this term refers to an owner of a business who works for his or her own company in order to save labor costs which are then included in the business's operating income. This self-employed worker is the owner of the business and at the same time an employee of his or her business.

**Self-employed business (family business):** A commonly used term that refers to a small enterprise where the owner and his or her family members work for the business. For policy implementation, the same criteria that apply to privately-owned companies are used.

**Privately-owned company:** According to the business registration under the Value-Added Tax Act enforced by the National Tax Service, the legal status of the business owner is as an individual person, rather than as a legal entity.

**Microenterprise:** Microenterprises are part of the category of small enterprises as

defined in the Framework Act on Small and Medium Enterprises. The criteria of gross revenue and the number of employees necessary to qualify as a microenterprise vary by industry. Microenterprises should also be able to prove their shareholding independence from large corporations, that is, no shares held by large corporations. Small Enterprises and Marketing Services (SEMAS) issues a certificate of microenterprise status.

**Small establishment:** A concept set forth in this study referring to businesses with fewer than 10 employees. This categorization statistically represents 100 percent of microenterprises and 99 percent of privately-owned companies.

### ▣ Legal Criteria of Microenterprises

Framework Act on Small and Medium Enterprises - An Act Concerning Protection and Support for Microenterprises

A microenterprise is defined as a business with fewer than 10 full-time workers in one of four specific industries: **mining, manufacturing, construction, and transportation** or as a business with fewer than five workers in the category of “other general industries” (general industries).

Sales criteria range from one to 12 billion KRW, with variation by industry.

For instance, when a company satisfies the shareholding-independence criteria with less than one billion KRW in sales and has five to nine full-time workers in one of the four industries specified above, the company will be defined as a microenterprise. However, if engaged in business activities deemed to belong to the category of “other general industries” (General industries) the company will be categorized as a small enterprise.

### ▣ Employment: The Toughest Criterion for Microenterprises to Satisfy

There are many small companies that fail to be identified as microenterprises because they satisfy the sales criterion but do not satisfy the employment criterion.

Setting the employment threshold too low may cause Peter Pan syndrome where companies that could otherwise add more workers to the payroll refrain from doing so in order to maintain their microenterprise status.

There is no empirical evidence to suggest Peter Pan syndrome is more prevalent among microenterprises than among mid-sized companies. However, making support available for microenterprises while leaving out other business types might encourage some businesses to limit the size of their workforce in order to qualify as a microenterprise.

Job creation would thereby be constrained.

Compared to the sales and shareholding independence criteria, the cap on workforce size can keep many small businesses from receiving government support, with a significant gap existing between industries. The employment threshold for small businesses that wish to receive disaster relief should be lower. Status as a microenterprise should not be the sole criteria for receiving relief.

### ■ **The Economically Active Population Survey (December 2020) Found 5.42 million Self-employed Workers**

The Economically Active Population Survey, conducted based on reports provided by survey subjects, revealed that there are 6.35 million non-salaried workers in Korea.

Among them, there are 4.12 million self-employed workers without other employees (zero-employee business entity), 1.3 million self-employed workers (self-employed with one or more additional employees), and 930,000 non-paid family workers.

If a self-employed worker has registered his or her business, the business entity is captured in the population of the administrative statistical survey.

If a self-employed worker is earning business income without business registration, the business is not declaring income to the Tax Service and therefore it is illegal. (E-commerce sellers with an annual income of KRW 12 million or less are exempted from income declaration.)

There exist self-employed workers such as street vendors and private tutors whose income is not taxed because they do not accept credit cards for payment nor do they issue cash receipts. These entities are not captured in business establishment surveys but may become eligible under relief measures targeting laborers such as those in special employment arrangements.

### ■ **National Tax Statistics (November 2020) Identified 7.58 Million Privately-Owned Companies and 2.54 Million Lifestyle Businesses**

According to business registration data, there are a total of 8.67 million business entities in Korea which include 7.58 million privately-owned companies and 2.54 million businesses that are engaged in one of 100 types of businesses designated as being closely related to people's everyday lives (lifestyle business). There is no distinction made between incorporated and unincorporated companies.

A business establishment (company) and a business owner (person) are two different concepts. Since an owner of a business may work for another company or may own

multiple branches of his or her business, there is a wide gap between the number of business establishments and the number of self-employed workers.

The majority of establishments, 2.27 million, are engaged in real estate rental businesses earning income from leasing residential or commercial space. Most are not obligated to pay the value-added tax (VAT).

Table 2. Number of Business Establishments by Industry (Top Seven Industries)

(Unit: No.)

|  | Total     | Privately-owned Companies | Incorporated Companies |
|--|-----------|---------------------------|------------------------|
| Total                                    | 8,670,169 | 7,583,577                 | 1,086,592              |
| Renting of Real Estate                   | 2,269,176 | 2,215,759                 | 53,417                 |
| Retail Trade                             | 1,080,232 | 1,018,873                 | 61,359                 |
| Food Service                             | 777,685   | 752,226                   | 25,459                 |
| Wholesale                                | 661,263   | 486,347                   | 174,916                |
| Manufacturing                            | 629,226   | 424,162                   | 205,064                |
| Transportation, Storage, & Communication | 619,299   | 574,981                   | 44,318                 |
| Construction                             | 529,518   | 406,158                   | 123,360                |

Source: National Tax Statistics, November 2020, nation-wide

Table 3. Number of Businesses in 100 Lifestyle Businesses

(Unit: No.)

|  |  |         |                                 |        |                           |        |
|--|--|---------|---------------------------------|--------|---------------------------|--------|
| Total Number of<br>Businesses in<br>100 Lifestyle<br>Businesses<br>(2,544,505) | Korean Restaurants                     | 396,621 | Snack Shops                     | 54,226 | Art Academies             | 30,809 |
|  | Retail Sale via Mail Order or Internet | 353,110 | Grocery Stores                  | 48,432 | Pubs                      | 29,872 |
|  | Real Estate Agents                     | 131,919 | Automobile Repair Shops         | 45,134 | Karaoke Establishments    | 28,884 |
|  | Hairdressers                           | 104,459 | Convenience Stores              | 44,789 | Supermarkets              | 28,746 |
|  | Clothing Shops                         | 85,173  | Fast Food Restaurants           | 42,642 | Sports Academies          | 26,299 |
|  | Coffee/Beverage Places                 | 70,806  | Skin & Hairdressers' Salons     | 41,798 | Chinese Restaurants       | 25,041 |
|  | Interior Decoration Shops              | 62,123  | Private Academies & Study rooms | 39,149 | Other Foreign Restaurants | 25,005 |
|  | Educational Institutes                 | 56,480  | Cosmetics Shops                 | 35,189 | Flower Shops              | 24,533 |

Source: National Tax Statistics, November 2020, nationwide

- In 2018, 3.24 million microenterprises were recognized in a compendium of SME Statistics.

Microenterprises were mostly engaged in retail trade (600,000 microenterprises), food service activities (600,000), other services (440,000), warehousing and supportive activities for transportation (410,000), and manufacturing (360,000).

Table 4. Number and Proportion of Microenterprises, Small Enterprises and Medium-sized Companies by Industry

(Unit: No., %)

|   | Total              | Microenterprises            | Small Enterprises<br>(Non-microenterprise) | Medium-sized<br>Companies |
|---|--------------------|-----------------------------|--|---------------------------|
| Total   | 3,813,723<br>(100) | <b>3,236,238</b><br>(84.86) | 454,059<br>(11.91)                         | 118,714<br>(3.11)         |
| Retail Trade  | 670,768            | 604,915 (18.69)             | 54,553 (12.01)                             | 11,137 (9.38)             |
| Food Service<br>Activities                              | 706,714            | 601,871 (18.60)             | 88,805 (19.56)                             | 16,019 (13.49)            |
| Other Services  | 491,045            | 437,679 (13.52)             | 41,971 (9.24)                              | 11,254 (9.48)             |
| Transportation,<br>Storage, &<br>Communication          | 436,174            | 406,917 (12.57)             | 23,335 (5.14)                              | 5,469 (4.61)              |
| Manufacturing   | 432,815            | 363,374 (11.23)             | 52,553 (11.57)                             | 15,158 (12.77)            |
| Wholesale   | 346,158            | 275,606 (8.52)              | 44,530 (9.81)                              | 25,323 (21.33)            |
| Education, Human<br>Health, & Social Work<br>Activities | 266,720            | 174,847 (5.40)              | 74,032 (16.30)                             | 17,813 (15.00)            |
| Real Estate Activities                                  | 136,287            | 123,219 (3.81)              | 10,003 (2.20)                              | 2,720 (2.29)              |
| Construction  | 142,564            | 110,560 (3.42)              | 26,210 (5.77)                              | 5,470 (4.61)              |
| Financial, Professional,<br>& Scientific Activities     | 114,294            | 77,462 (2.39)               | 30,629 (6.75)                              | 5,517 (4.65)              |
| Hospitality<br>(Accommodations)                         | 56,735             | 52,226 (1.61)               | 3,414 (0.75)                               | 1,059 (0.89)              |

Source: Excerpted from Gil Eunsun, et al., (2020) Concept of Small Establishments and Analysis of their Production and Employment Characteristics by Industry, p.27 Table 2-3

Original source: SME Statistics 2018, Statistics Korea (Business entities that are neither privately owned companies nor incorporated companies are excluded. Some industries are not included.)

### III. Issues of Equity between Privately-Owned Microenterprises and Small Incorporated Enterprises

#### ■ The Statistical Business Register 2018 Identified 3.7 Million Small Establishments

The Statistical Business Register is a compilation of businesses registered with the National Tax Service or having a business location per Statistics Korea's survey data. Out of 8.3 million business entities, 3.99 million businesses were found to have generated sales upon which VAT is levied.

Among these businesses, small establishments with fewer than 10 employees have been extracted which represent 100 percent of microenterprises and 99 percent of privately-owned companies.

Among businesses that posted taxable sales revenue, privately-owned microenterprises accounted for the largest proportion at 74 percent (2.95 million companies) with still significant numbers of companies falling into one of the following two qualifications: Privately owned, non-microenterprises (120,000 businesses) (three percent) and incorporated microenterprises (250,000) (six percent).

Table 5. Distribution of Small Establishments, Privately-owned Companies and Microenterprises

(Unit: No., %)

| Small Establishment or Privately-owned Company?        | Number of Companies (%) | Privately-owned Company or Microenterprise? | Number of Companies (%) |
|--|-------------------------|---|-------------------------|
| Privately owned companies with fewer than 10 employees | 3,034,020 (75.98)       | Privately-owned microenterprise             | 2,953,853 (73.97)       |
| Incorporated business with fewer than 10 employees     | 658,938 (16.50)         | Incorporated microenterprises               | 254,415 (6.37)          |
| Privately owned companies with 10 or more employees    | 39,002 (0.98)           | Privately-owned SMEs/large companies        | 119,169 (2.98)          |
| Incorporated businesses with 10 or more employees      | 261,144 (6.54)          | Incorporated SMEs/large companies           | 665,667 (16.67)         |
| Total  |                         |   | 3,993,104               |

Source: Adapted from Gil Eunsun, et al., (2020) Concept of Small Establishments and Analysis of their Production and Employment Characteristics by Industry p.35 Table 2-8. Author's summary of data from Statistical Business Register 2018.

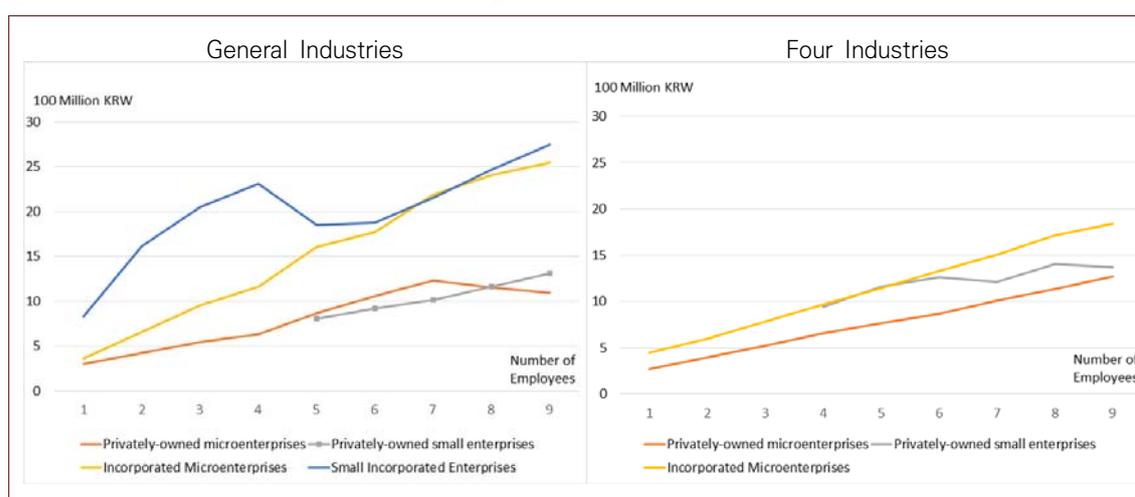
■ **Privately-owned Non-microenterprises with Five to Nine Employees in the General Industries Category Register Similar or Lower Sales Revenues (on average) Compared with Other Microenterprises**

Privately-owned small enterprises (non-microenterprises) with five to nine employees in the general industries category posted an average of 810 million to 1.31 billion KRW in sales, whereas privately-owned microenterprises with five to nine employees in one of the four industries recorded 770 million to 1.27 billion KRW in sales. This shows similar business performance between the two (compare the grey line [general industries] and the orange line [the Four Industries] of Figure 1).

What is notable is that in the case of incorporated microenterprises with five to nine employees and engaging in one of the four specific industries, the average sales ranged from 1.15 billion to 1.84 billion KRW, remarkably greater than the average sales of small enterprises in general industries with five to nine employees (compare the grey line [general industries] and the orange line [the Four Industries] of Figure 1).

Among businesses in general industries, both microenterprises and small enterprises that have five to nine full-time employees but differ in terms of the number of full-time workers and the number of workers classified as “employee-insured” by the national health insurance, also exhibited similarity in sales (compare the grey line [general industries] and the orange line [the four industries] of Figure 1).

Figure 1. Comparison of Average Sales Between Small Enterprises in General Industries and Microenterprises in the Four Industries



Source: Adapted by the author based on data from Statistical Business Register 2018 (axis X: number of employees, axis Y: average annual sales)

Note: Small incorporated enterprises engaged in the four industries were excluded from the population since their average sales were estimated between 3.6 to 7.9 billion KRW.

## ■ A Weak Rationale for Excluding Privately-Owned Companies in General Industries

The rationale for excluding privately-owned companies with five to nine employees in the general industries category is demonstrably weak when we examine the similarities between these businesses and businesses in other industries or with microenterprises in the same industries. Business entities in the Four Industries with five to nine employees and those in general industries with five to nine employees do not show marked differences in average sales. However, those in the four industries qualify as microenterprises while those in general industries do not.

Businesses with average sales of less than two billion KRW consist of privately-owned companies with 15 employees or fewer and incorporated businesses with up to six employees. This indicates that a greater difference exists between privately-owned companies and incorporated companies than exists between industries.

The current eligibility criteria that exclude privately-owned companies in general industries with five to nine employees should be modified to include all small establishments with similar figures in sales in order to ensure equity in the provision of disaster relief.

## ■ Relaxing Employment Criteria

Relaxing the employment criteria to fewer than 10 employees will only add 74,000 privately-owned companies — at maximum — to the group eligible for benefits.

Table 6 shows the current benefit eligibility of privately-owned microenterprises (orange) and the number of businesses and their average sales to be added to the list of those eligible if the current eligibility criteria are revised as suggested.

If the employment threshold is modified and set at fewer than eight or fewer than 10 employees and includes privately owned companies that are not microenterprises in the general industries category (grey), the number of companies eligible for benefits will grow by 60,000 and 74,000, respectively.

Among privately-owned small enterprises in the general industries category, those that do not qualify as microenterprises typically have five to seven employees.

Table 6. Different Scenarios for Relaxing Non-microenterprise Qualification Criteria

(Unit: number of businesses, average sales (KRW))

| Industry  | General Industries           |   |  | Four Industries (Mining, Manufacturing, Construction, Transportation) |   |   |
|---|------------------------------|---|--|---|---|---|
| Current Criteria of Microenterprise   | Fewer than Five Employees    |   |  | Fewer than 10 Employees   |   |   |
| Comparison Between Current Beneficiaries (privately-owned microenterprise) and Newly Added Beneficiaries with Revised Eligibility | Business with Four Employees | Privately-owned Microenterprise<br>49,694<br>(640M)   | Incorporated Microenterprise<br>16,487<br>(1.16B)  | Four Employees  | Privately-owned Microenterprise<br>14,293<br>(660M) | Incorporated Microenterprise<br>12,942<br>(970M)  |
|   | Five Employees               | Privately-owned Small Enterprise<br>29,316<br>(810M)  | Small Incorporated Enterprise<br>23,371<br>(1.85B) | Five Employees  | Privately-owned Microenterprise<br>9,378<br>(770M)  | Incorporated Microenterprise<br>10,669<br>(1.15B) |
|   | Six Employees                | Privately-owned Small Enterprise<br>18,392<br>(920M)  | Small Incorporated Enterprise<br>19,985<br>(1.88B) | Six Employees   | Privately-owned Microenterprise<br>6,707<br>(870M)  | Incorporated Microenterprise<br>9,316<br>(1.33B)  |
|   | Seven Employees              | Privately-owned Small Enterprise<br>12,227<br>(1.02B) | Small Incorporated Enterprise<br>16,083<br>(2.16B) | Seven Employees   | Privately-owned Microenterprise<br>5,054<br>(1.01B) | Incorporated Microenterprise<br>8,042<br>(1.51B)  |
|   | Eight Employees              | Privately-owned Small Enterprise<br>8,541<br>(1.16B)  | Small Incorporated Enterprise<br>12,583<br>(2.47B) | Eight Employees   | Privately-owned Microenterprise<br>3,933<br>(1.14B) | Incorporated Microenterprise<br>6,815<br>(1.71B)  |
|   | Nine Employees               | Privately-owned Small Enterprise<br>5,981<br>(1.31B)  | Small Incorporated Enterprise<br>10,050<br>(2.74B) | Nine Employees  | Privately-owned Microenterprise<br>3,021<br>(1.27B) | Incorporated Microenterprise<br>5,969<br>(1.84B)  |

Source: Excerpted and adapted from Gil, Eunsun, et al., (2020) Concept of Small Establishments and Analysis of their Production and Employment Characteristics by Industry, p.46 Table 6

Note: Figures in parentheses represent average sales. Businesses in orange are privately-owned microenterprises that are eligible for the third round of disaster relief. Businesses in grey are those to be newly added to the beneficiaries if the eligibility criteria are adjusted to include privately-owned companies with five to nine employees; yellow if incorporated microenterprises are added; and blue if incorporated business with five to nine employees are added. These different scenarios need to be reviewed against the current eligible beneficiaries (orange).

When incorporated businesses are allowed to receive disaster relief funds, 254,000 incorporated microenterprises (yellow) will be added to the beneficiary list. Among small incorporated enterprises in the general industries category (blue), those with fewer than eight employees number 60,000, and those with fewer than 10 employees on the payroll are estimated to be 82,000.

## IV. Proposed New Categorization of Small Businesses

- This report has been written based on Statistical Business Register 2018, and therefore should be interpreted in consideration of the fact that the overall number of businesses has increased since 2018.

### (1) Stage 1: Starting Eligibility Screening with Small Establishments

Small establishments employing fewer than 10 full-time workers represent 99 percent of privately-owned companies and 100 percent of microenterprises and also include small incorporated enterprises as well as privately-owned non-microenterprises. Such small establishments should therefore be the starting point of the screening process.

The results of an analysis of national health insurance subscription data and data on the basic status of businesses (using the Statistical Business Register and based on business registration numbers) suggest that the expedient action would be to include small establishments employing fewer than 10 full-time workers as eligible for disaster relief support regardless of official legal categorization. Doing so would result in 3.7 million companies added to the list of those eligible for support. There are more privately-owned non-microenterprises that are struggling than there are businesses identified as microenterprises.

If only microenterprises are eligible to receive support, business entities with five to nine employees in one of the Four Industries are categorized as microenterprises. However, businesses engaged in other general industries, even those employing the same number of workers, are not identified as microenterprises. This causes inequity among industries in terms of receiving support.

Businesses that have 10 or more full-time employees on the payroll cannot be included among those eligible for benefits when applying either the qualification criteria for privately-owned companies or the qualification criteria for microenterprises. Support for these larger establishments should be considered as a component of SME support programs.

### (2) Stage 2: Verification of Business Owner Eligibility

- Business owners working for another company should be differentiated from those only working for themselves

Verification is required concerning whether a business owner is “employee-insured” or

“self-employed insured” under the national health insurance program. If a business owner earns a salary from another company, then this person would be classified as “employee-insured,” and therefore ineligible to receive benefits.

If an owner of a business is “employee-insured” by the national health insurance, it is likely that the owner is operating his or her business so as to make unearned income, such as income from side jobs, investments, royalties, or other types of income.

Salaried earners are not eligible for support programs that target business entities and therefore are excluded.

In the case where a business owner is registered as a dependent of an “employee-insured” family member and thus is exempted from the payment of health insurance premiums, it is deemed that sizable economic activities are occurring at the business and therefore the owner is not included among those eligible for benefits.

If a person is excluded due to the reasons specified above and is deemed to be suffering a loss of revenue because of the pandemic, this person should be supported by programs for low-income populations in order to ensure equity with salaried income earners.

### **(3) Stage 3: Discussion of the Inclusion of Incorporated Businesses**

Incorporated businesses were excluded in the second and third disaster relief programs. However, the rationale to discriminate against incorporated businesses is weak considering that the government has compensated privately-owned companies of similar size and in similar industries for their losses.

Incorporated businesses account for 8.6 percent of all microenterprises and just like privately-owned companies of similar size, incorporated businesses have also suffered a severe economic blow due to COVID-19.

There are a significant number of incorporated microenterprises doing business in one of the 100 lifestyle businesses. They share many similarities with privately-owned companies, but are registered as incorporated entities owing to the fact that they are partnerships or recipients of investment monies.

CEOs of incorporated companies are, in principle, employed by the business and earn a salary. Thus, they are not self-employed workers. However, in reality, they are not very different from owners of privately-owned companies.

Including incorporated businesses in the eligible group will add 254,000 incorporated microenterprises; these include 82,000 incorporated businesses with five to nine

full-time employees.

Since there is no representative owner in an incorporated business, further deliberation is required to find an administrative solution to identify and designate the beneficiary of disaster relief.

## V. Current Criteria to Remain in Future Support Measures

### (1) Use of Sales Data, Not Operating Income, to Determine Eligibility

The proportion of operating income to sales varies greatly by industry. But, the proportion does not differ significantly between the businesses in the Four Industries and those in the other general industries category (categories are applied to distinguish between microenterprises).

Analysis of Economic Census 2015 data shows the proportion of operating income to sales in the four industries category at: 9.9 percent in mining, 7.6 percent in manufacturing, 4.2 percent in construction, and 8.6 percent in transportation.

Among the other general industries category, the corresponding figures stood at: five percent in wholesale and retail trade, 13.4 percent in accommodation and food service activities, 6.9 percent in information and communications, 11 percent in real estate leasing, 4.3 percent in professional, scientific and technical activities, 4.3 percent in business support services, 12.9 percent in private educational institutes, 8.4 percent in sports related services, and 11.9 percent in personal goods repair services.

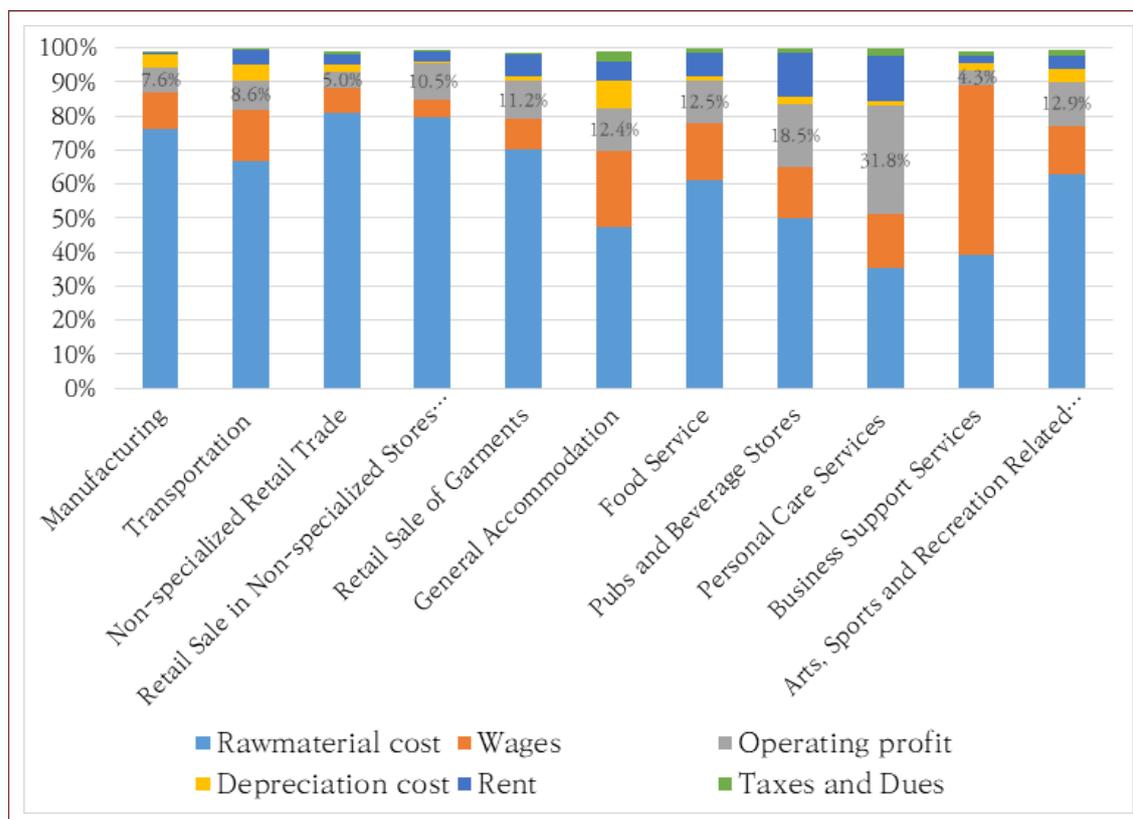
While the criterion of sales (which varies significantly among small businesses of different industries) cannot function as an effective criterion for distinguishing between microenterprises, different employment thresholds are being applied for microenterprises in the Four Industries versus those in the general industries category. These different thresholds are due to the varying levels of operating profit. However, in reality, the cost structure is quite similar among microenterprises, regardless of industry.

#### ▣ Using Sales Figures to Determine Business Eligibility

When value-added tax (VAT) and operating income data lack credibility, using sales figures to determine eligible small businesses is a reasonable practice.

The difference in the proportion of VAT to sales is no greater between different industries than it is between companies in the same industry.

Figure 2. Proportion of Operating Income to Sales in Major Industries



Source: Author's adaptation of data from Economic Census 2015.

Since a decline in sales is positively correlated with a decrease in operating income, the disadvantages of using sales to estimate the level of impact of COVID-19 are limited.

Sales and the size of a business with one to nine employees tend to be closely associated and therefore distinguishing these companies by industry or confirming their cost structure will result in limited benefits compared to the administrative costs incurred.

## (2) Verification of the Number of Irregular Workers: The difference between the number of full-time workers and total number of employees

The number of full-time workers and the number of employees is typically the same in most businesses and any temporary disparity is limited to one or two persons.

A full-time (or regular) worker is a legal term that is used to estimate the average number of directly-hired salaried workers of a business establishment for a period of

one month from the date when verification of such was requested. The estimate is based on the number of working hours and the number of business days.

The total number of employees is calculated based on the number of “employee-insured” individuals of a business with employee data derived from the Census on Establishments.

For instance, if two part-time workers are hired to work 20 hours per week, and their health insurance is covered by the employer, instead of having one full-time worker working a 40-hour week, the number of “employee-insured” individuals (simple head count) will be greater by one than the number of full-time workers (calculated based upon working hours; there will be two “employee-insured” individuals but only one full-time worker).

Businesses with more employees (including the “employee-insured”) than full-time workers were not included in the third round of disaster relief since the relief was provided based on the number of employees. This resulted in complaints from those excluded from receiving benefits.

However, there are only 1,057 privately-owned companies and 3,517 incorporated businesses with five to nine employees with fewer than five full-time workers. There are very few instances where the difference between the number of employees and the number of full-time workers is greater than three.

If the employment criteria of future disaster relief measures are relaxed, most issues arising from different ways of defining employment will be automatically resolved.

## VI. Conclusion

### ▣ Improving Business Categorization to Better Support Struggling Small Businesses

In the third round of disaster relief, eligibility was determined using sensible details to exclude enterprises engaged in speculative endeavors, professional and scientific services, and the financial and insurance industries. Support was made available for microenterprises which were directly impacted by gathering and operating hour restrictions without the businesses having to prove a loss of revenue.

Moreover, business owners operating multiple businesses were allowed to receive compensation for only one of their businesses so as to prevent duplication in allowance payments.

Additionally, businesses that were temporarily or permanently shut down were not eligible for the third round of support. If 2020 sales are found to be no less than 2019 sales after declaration of VAT among microenterprises in the general industries

category, these microenterprises are obligated to return the support they received. However, since the minimum requirement to receive financial benefits was categorization as a microenterprise, 74,000 privately-owned companies categorized as small enterprises (due to their employment of five to nine workers) were excluded from receiving support.

This study proposes that the screening process begin with small establishments that have fewer than 10 employees, with additional screening afterward. Such a method would identify a greater number of those businesses in need of support, instead of applying the singular criterion of being a privately-owned microenterprise.

Using this method, privately-owned companies with five to nine employees, incorporated microenterprises, and incorporated businesses with five to nine employees will be eligible for support. Relaxing employment criteria to allow companies with fewer than 10 employees to receive support will add a maximum of 74,000 privately-owned companies to those eligible for benefits. Applying a sales ceiling and excluding specific industries will reduce the number of businesses which will be made eventually eligible.

Owners of privately-owned companies who are “employee-insured” under the national health insurance scheme and those having paid tax in amount over a certain threshold would also be ineligible for relief.

Applying the same sales threshold to small establishments employing 10 or fewer workers (the current threshold is set at 400 million KRW, discussions to raise it to 1 billion KRW are ongoing) is the best way to ensure equity.

Any issues arising from using sales and employee figures for screening instead of using operating income and the number of full-time workers are deemed to be of minor consequence compared to issues that arise from the different legal standing given to business entities.

More fine-tuned screening allowing for the efficient execution of budgetary support will enable focused support for companies that have suffered serious economic damage resulting from the COVID-19 pandemic.

Gil, Eunsun / Industrial Employment Policy Division / Associate Research Fellow  
egil@kiet.re.kr | 044-287-3152



A PUBLICATION OF THE KOREA INSTITUTE FOR INDUSTRIAL ECONOMICS AND TRADE  
PUBLISHER **Chang, Jisang**  
EDITOR-IN-CHIEF **Kim, Youngsoo**  
ASSISTANT EDITORS | **Jeong, Gyeonghee & Jo, Gyehwan**  
COPY EDITOR **Aaron Crossen**  
370 Sicheong-daero, Sejong City, 30147, Republic of Korea  
Tel. 044-287-3114 Fax. 044-287-3333 [www.kiet.re.kr](http://www.kiet.re.kr)

This article from *i-KIET* is available for viewing and download at [eng.kiet.re.kr/kiet\\_eng/main](http://eng.kiet.re.kr/kiet_eng/main).