



*In Korea for Asia Series*

# North Korean Refugee Entrepreneurs in South Korea

*Unveiling Korea's Hidden Potential*



**The Asia Foundation**

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Unveiling Korea's Hidden Potential

December 2020

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## Foreword

There is little doubt that the future of the Korean peninsula in the 21st century will be largely defined by events that will unfold in North Korea. Unfortunately, there are good reasons to believe that this future is not going to be easy. Many serious problems and challenges lay ahead. However, we will have no choice but deal with these challenges.

The best way to handle these changes and to deal with future crisis is to be as well prepared as possible and have some prior understanding of what is likely to happen when North Korea keeps evolving and changing.

Few people would doubt that the major direction of the changes in North Korea will be towards further growth of a market economy in some form. In a sense, the market economy has already existed, even flourished in North Korea for nearly three decades. Most likely, it will take even deeper roots in the future – irrespective of whether North Korea eventually joins the South or remains a separate polity.

However, no market relations can function without entrepreneurs. These people are vital for economic growth and, in many cases, for the sheer economic survival of modern societies. Throughout the last seventy years, South Korea has been one of the most thriving entrepreneurial cultures of Asia, or perhaps the entire world. Given the common cultural roots shared by the North and South, there is virtually no reason to doubt that North Korea could have great potential. However, decades of living under a very peculiar political system, which not merely banned but heavily criminalized entrepreneurship, might have had noticeable impact on the North Korean business culture. If we want North Korea to grow and flourish, and if we want to assist the North Koreans in reaching their goals, we need to have a better understanding of the North Korean entrepreneurial culture.

This task is not impossible. Right now, about 33,000 North Korean refugees are residing in the South. Some of them, having adjusted to the South Korean life, choose to become entrepreneurs and to start their own businesses. According to somewhat imprecise estimates, about 1,100 North Korean refugees in the South now describe themselves as entrepreneurs. I have had many opportunities to meet these people and talk to them, and I can testify how impressive they are. They are smart, commonsensical, hardworking, and very focused. Even though they must operate in an environment that is sometimes very different from what they have experienced before, they manage to achieve a remarkable level of success. For a number of reasons, their success is important not only for the entrepreneurs themselves, but for a wider society. To start with, many refugee entrepreneurs stay in touch with their families and other contacts back in the North, and, to a very large extent, they serve as an important conduit through which North Koreans can learn about ways of the modern world in general, and ways of running a modern business in particular.

It is also important to keep in mind that successful entrepreneurs will become role models for refugees whose number will keep growing in the foreseeable future. In other words, they will show the next generations of entrepreneurs how to adjust to the South Korean life.

Therefore, it is vital to understand the situation these entrepreneurs are facing in the South. It is necessary to help them to adjust to the South, and it is also necessary to have a better understanding of which obstacles and problems are likely to be encountered by a far larger number of North Korean entrepreneurs.

The Asia Foundation's North Korea Refugee Entrepreneurs in South Korea report, based on the survey of 131 refugee entrepreneurs, gives us a good picture of their life. Frankly, the picture seems to be optimistic. They are satisfied with their new life, they face relatively little discrimination, even though getting through the South Korean law might be a challenge, they work much longer than their 'native-born' South Korean peers, and they are even more inclined to do volunteer work. Still, the picture should not be seen as excessively rosy: there remain problems and bottlenecks, and the faster we learn of their existence, the easier it will be to fix or ameliorate these difficulties.

The growing North Korean refugee community in the South can be seen as a testing ground which can give us some foresight and warning about what is likely happening in North Korea now, and what is probably going to happen there in the future. Thus this research and its findings are extremely important for everyone who cares about North Korea and I highly recommend it for everyone to read carefully.

**Andrei Lankov**

*Professor, Kookmin University*

December 2020

## About the *In Korea for Asia Series*

The *In Korea for Asia* publication series is a response to the most pressing challenges facing Korea today while identifying opportunities to grow as a country and in service to Asia. The series addresses four categories of challenges facing South Korea: (a) social inclusion and economic inequality, (b) national security and international cooperation (including Korea-U.S. relations), (c) economic growth and competitiveness, and (d) demographics and next generation. If South Korea strengthens these areas, it will become a better neighbor and partner to other countries in the region.

The Asia Foundation has been in Korea for over 65 years assisting the country's development transition. As a loyal friend, we were there during the most important times in Korea's modern history. Over time, friends and partners in Korea and across Asia have turned to The Asia Foundation for hope and friendship in difficult times. By building upon such support, South Korea has grown to become one of the most successful stories in Asia. In less than a generation, South Korea has transitioned from a war-torn country to a leader in technological innovation and global brands. With such a wide range of experiences, the country has many valuable lessons and experiences to share with developing countries and neighbors. But within South Korea, there is a realization of deep problems at home.

As we enter a new decade, The Asia Foundation recognizes that our role as connectors and positive change agents must adapt to an era of technological innovation and emerging development cooperation models in Korea and the rest of Asia. Our increasing partnership with the private sector is reflected in our work in entrepreneurship development, responsible business models, and impact investment solutions, in order to benefit vulnerable groups, women, and the next generation.

This report, *North Korea Refugee Entrepreneurs in South Korea*, is directly linked to the challenge of social inclusion and economic inequality. North Korea entrepreneurs represent both the hope and aspirations of a minority refugee group within South Korea as well as a potential sector that has been economically excluded (micro and small enterprises). Rooting for their success represents both a new economic model of inclusion and a micro-cosmos for an integrated life in the Korean peninsula. Through this report, we invite you to join us to work for a better tomorrow *In Korea for Asia*.

**Kwang W. Kim**

*Korea Country Representative, The Asia Foundation*

December 2020

## Acknowledgements

This report has been a collaborative effort between The Asia Foundation and its partners, representing the work and insight of many individuals.

This report was led by Kwang Wook Kim, Jongbeom Choi, and Jaemyung Lee from The Asia Foundation. The team also gratefully acknowledges contributions from Dylan Davis (who initially commissioned the report), Nancy Yuan, Gordon Hein, Sofia Shakil, Amy Ovalle, and Anthea Mulakala for their valuable comments, insights, and feedback. John Rieger served as the main editor, with inputs from Lisa Taber.

The initial field research was conducted by a research team led by Peter Ward (PhD candidate at the University of Vienna) and Andrai Lankov (Professor, Kookmin University), Andray Abrahamian (Visiting Scholar, George Mason University Korea), Steven Denney (Postdoctoral Fellow, Munk School of Global Affairs and Public Policy, University of Toronto), and Park Daehyeon (CEO, Woorion).

The Asia Foundation especially would like to give thanks to the Korean refugee entrepreneurs who generously answered the survey and interview questions and helped in developing a better understanding of the situation, challenges and needs of Korean refugee entrepreneurs in the Republic of Korea (South Korea hereafter).



## Introduction: Why Is This Study Important?

The year 2020 marks the 75th anniversary of Asia's Cold War, which started the division between North and South Korea. Today, the world's attention remains focused on geopolitical aspects of inter-Korean relations, a major policy conundrum without a clear solution in sight. In the meanwhile, an emerging community of more than 33,000 refugees from the North who moved to South Korea provides a fascinating window to what a more integrated life on the Korean peninsula could look like, with both its promises and its challenges.

North Korean refugees, who are granted South Korean citizenship upon arrival, face profound political, economic, and social differences in the South. To overcome these challenges, many aspire to open new businesses. As many as half of refugees aspire to become entrepreneurs, according to one study.<sup>1</sup> If their businesses achieve success, they may be exceptionally well equipped to help bridge the gap between the cultures of North and South.

Who are these Korean refugee entrepreneurs (or KREs, as we will henceforth call them)? In what industries are they engaged? How many people do they employ in their businesses? How much revenue do they generate? What motivates them? What obstacles do they face? What plans do they have?

Despite their significance, data has been lacking, and we have little systematic understanding of KREs.<sup>2</sup> Estimates of their numbers vary, with one source reporting that more than 1,100 North Koreans, or 3.3% of the roughly 33,000 refugees living in South Korea, identify themselves as entrepreneurs.<sup>3</sup>

To answer some of these questions, The Asia Foundation partnered with Woorion, a refugee-run nongovernmental organization in South Korea, to conduct a landmark survey of 131 refugee entrepreneurs from the North, gaining insights into their experiences, their characteristics, and the challenges and opportunities they face. The survey was complemented by 10 in-person interviews (annex 1). A full description of the research methodology is included in annex 4.

Most of the KREs surveyed arrived in South Korea between 1997 and 2017, and the majority are now in their 30s and 40s. Several of those who participated in the in-person interviews expressed a desire to give back to their community and share their experiences, including with other refugee entrepreneurs.

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1 Korea Hana Foundation's 2018 Settlement Survey of North Korean Refugees in South Korea found that 49.8% of respondents preferred self-employment to regular employment. Another study by The Bridge found that one of the main reasons for this preference is the difficulty refugees have in adjusting to the cultural norms of South Korean employers.

2 One notable exception is a 2015 survey of North Korean entrepreneurs by Korea's Small and Medium Business Administration (SBA). This national survey interviewed 182 business owners who are KREs, mostly micro-entrepreneurs (85%) from the Seoul-Gyeonggi area (62%). The report's main recommendations stressed the importance of programs specifically tailored to KREs and to women business owners in particular.

3 Source: Ministry of SME and Startups, 2015. In the Hana Korea Foundation's 2018 Settlement Survey of North Korean Refugees in South Korea, about 370 entrepreneurs, or 12.3% of 3,000 respondents, identified themselves as entrepreneurs.

Others wanted to help fellow refugees obtain information and understand procedures such as how to get healthcare and other government benefits, housing information, and information on starting and running a business.<sup>4</sup>

One refugee entrepreneur, Min Kang, now 33, started as a beggar in his early teens, first selling apricots in trains to survive in North Korea, then bike tires in China. When he moved to South Korea, he started selling smartphones and other products online. In 2016, he started his own web design business. While native South Koreans sometimes wonder if he really knows anything about capitalism, Min is undeterred. His dream is to do business related to North Korea and to help children in difficult situations.

KREs in South Korea are resilient and adaptable. Take, for example, Gum-Ju Jeon, a 34-year-old who arrived in South Korea in her early 20s. She took an accounting qualification exam, but her real dream was to become a florist, as she recalled going to the mountains in North Korea to collect flowers. She started by taking volunteer jobs, and she noticed that many successful florists had studied in Europe. She took a florist course and interned in the U.K. for six months, making herself available early in the morning and late at night, which she credits for opening doors. She now owns her own shop in Seoul, called The Florist, in the Dongdae-mun shopping district.<sup>5</sup>

Better understanding the entrepreneurial aspirations of North Korean refugees such as Min Kang and Gum-Ju and designing support programs to help them succeed are important for at least three reasons. First, besides potentially serving as bridges—culturally, socially, and economically—between North and South, these entrepreneurs can provide a window to what a shared life between North and South might look like. Supporting their success prepares South Korea for an era of greater engagement or unification. Second, a better understanding of their needs and potential solutions can cross over to other vulnerable groups within South Korea, such as migrant communities. Well-formed interventions, such as human-centered design approaches, that emphasize customization can increase the effectiveness of support to vulnerable groups in South Korea. Finally, some of the approaches developed here can also serve as inspiration for other countries interested in better ways to support their own minority or refugee populations.

This report presents the findings of The Asia Foundation survey. It also draws lessons from other organizations, including the private sector, foundations, government, and other partners, with recommendations to support entrepreneurs such as Gum-Ju and Min Kang.

<sup>4</sup> Hanawon, the government organization that helps North Korean refugees adapt to South Korea, provides an initial orientation, but refugees often find this insufficient.

<sup>5</sup> Min Kang and Gum-Ju's stories were first reported by the Washington Post in August 2018. Gum-Ju has since described opening her own shop, at a talk she gave at Yonsei University in November 2019.

## Refugee Characteristics and Aspirations

### Overview of North Korean refugee community in South Korea

According to South Korea's Ministry of Unification, as of 2020, a total of nearly 33,000 people from North Korea have braved great danger, left loved ones behind, and fled a familiar way of life to resettle in South Korea. About 44% of these North Korean refugees come with their families, and others come to find family members already resettled in the South.<sup>6</sup>

It would be hard to overstate the seismic shift of this transition from North to South Korea. Refugees commonly find themselves struggling to “acculturate to the capitalistic society’s culture, language, politics, and lifestyle” and feeling “alienated and isolated in South Korean society, finding it difficult to build relationships or associate with their South Korean peers.”<sup>7</sup>

The picture emerging is of a refugee community that is striving, but still quite far from parity with South Korean society as a whole.

However, in the past few years, a number of surveys on North Korean refugees in South Korea have painted a different picture:<sup>8</sup>

- Most refugees are satisfied with life in South Korea, with less than 4% expressing dissatisfaction.
- When asked if they have experienced discrimination or ignorance, four out of five refugees say no.
- North Korean refugees work an average of 8.8 hours per day, or over a full day more per week than their South Korean peers.
- Refugees are more likely to engage in social activities during leisure time and less likely to watch television than native South Koreans.
- Twenty-four per cent (24%) of refugee respondents reported participating in volunteer work in 2018, which is 6.3 percentage points higher than native South Koreans.
- Refugees are slightly more economically active than native South Koreans, though by an amount within the statistical margin of error (1.4 percentage points).

6 “North Korean Refugee Infographics Season III,” Korea Hana Foundation, December 2016

7 Jeea Yang, (2018) “Struggles of Resettlement: North Koreans in South Korea,” Psychology International, September.

8 An important source is Korea Hana Foundation, 2018 Settlement Survey (n. 1) Other sources include the 2015 SBA Study (n. 3).

These studies also point to real challenges facing North Korean refugees in South Korea:

- The discrimination issue is complex, with some contradictory findings. One refugee entrepreneurship study shows that discrimination is a major challenge.<sup>9</sup> Most sources, however, including our interviews, suggest that discrimination, though significant, is not as widespread as generally believed. In another study, 30% of refugees reported experiencing discrimination, and more than half (53%) noticed negative behavioral changes among native South Koreans when refugees were revealed to be from the North.<sup>10</sup>
- Compared to other South Koreans, refugees from the North earn 35% less each month, even while working an average of four or five days more.<sup>11</sup>
- Not surprisingly, nearly two-thirds of North Korean refugees live in a house or apartment allocated by Hanawon, the government's refugee resettlement agency.
- Thirty-one percent evaluate their own health as "bad."<sup>12</sup>
- Sixty-two percent report feeling extremely stressed or tending to feel stressed in their daily lives.<sup>13</sup>

The refugees cite a mix of economic factors (e.g., the broad wage gap between North and South Korean employees) and cultural factors for their decision to become entrepreneurs.<sup>14</sup> Cultural factors, like difficulty adapting to South Korean organizational culture, stand in the way such as finding employment at a major company. Some KREs point to the closer connection between effort and reward in one's own business, which is different than their experience in North Korea. Some associate entrepreneurship with "freedom," "status," or the sense that they have "succeeded" in South Korea:

Some Refugees associate entrepreneurship with "freedom," "status," or the sense that they have "succeeded" in South Korea.

*I defected because I didn't like the oppression and control I faced in North Korea. I was in jail for 10 years, from the age of 4 to 14. When I was 22, I got married and was controlled again. While I was in China, I was in hiding. I was always oppressed, so I wanted to be free. Also, now I have status here.... I believe that I've succeeded in settling here. I'm not afraid of anyone, nor do I envy anyone.*

—Korean refugee entrepreneur

9 A report by The Federation of NK Industries and the Ministry of SMEs and Startups (p.80) claimed that 69% of 142 KRE respondents experienced discrimination. Some 60% also claimed to have experienced discrimination when applying for business loans.

10 National Human Rights Commission of Korea (NHRC), Survey to Improve North Korea Refugee Protection in South Korea, December, 2018, p. 76.

11 Korea Hana Foundation, 2018 Settlement Survey (n. 1)

12 Ibid.

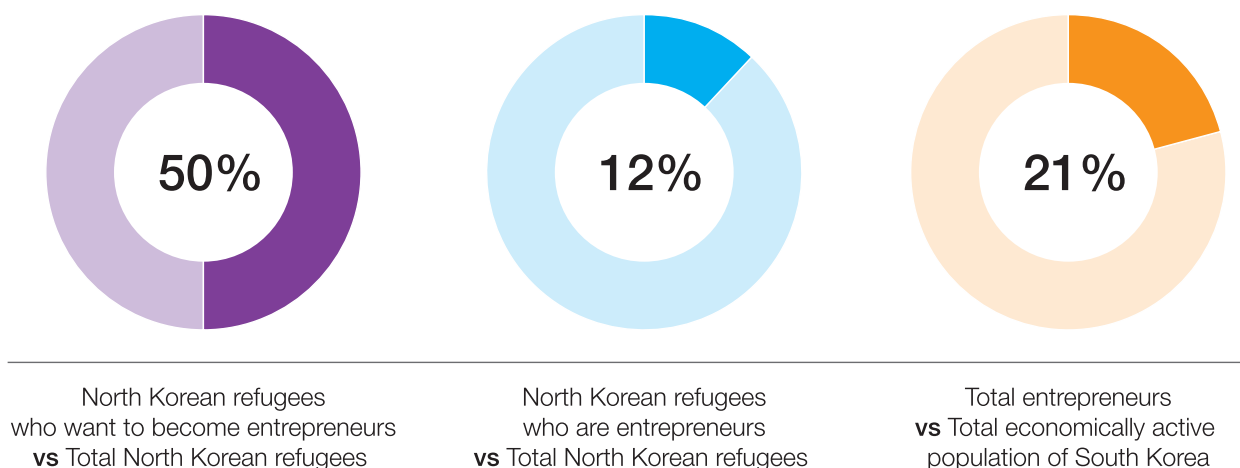
13 Ibid.

14 "North Korean Refugee Entrepreneurship on the Rise, with Wage Gap against South Koreans Remaining,' Voice of America, April 10, 2018.



In fact, a significant number of North Korean refugees see entrepreneurship as the best route to a better life—one survey showed 50% of refugees preferring self-employment as the “most desired type of work”—but, in reality, only about 12% of North Korean refugees who work are actually self-employed or run their own businesses. This compares to 21% of economically active native South Koreans who are entrepreneurs.<sup>15</sup> So what is holding the refugee entrepreneurs back?

Figure 1. Aspiring entrepreneurs vs. actual entrepreneurs



Sources: National Human Rights Commission of Korea (percentage of refugees who want to become entrepreneurs), Korea Hana Foundation (percentage of refugees who are entrepreneurs, percentage of entrepreneurs in South Korea relative to total economically active population), The Asia Foundation analysis.

<sup>15</sup> Korea Hana Foundation, 2018 Settlement Survey (n. 1)

## Who Are the Korean Refugee Entrepreneurs in South Korea?

### Survey respondents

To find out more about the key issues facing North Korean refugees with entrepreneurial aspirations, we asked 131 KREs what hurdles they faced starting out. We asked 84 questions such as: how long they have been in business, how much money they earn, how many people they employ, and what sources of funding they use. The entrepreneurs were recruited mainly through Woorion, a South Korean NGO serving the refugee community, and by word of mouth. We also conducted telephone interviews among a subset of 10 survey respondents<sup>16</sup>.

Among nonbusiness characteristics:

- Most refugees we surveyed arrived in South Korea between 1997 and 2017.
- The majority of refugee entrepreneurs are female. Among KREs surveyed, 65% were female, compared to 75% of North Korean refugees overall.
- KREs are more likely to be in their 30s or 40s, with 49% having lived in South Korea for 10 or more years.

**Females comprise 75% of the overall refugee population and 65% of refugee entrepreneurs.**

### Business characteristics

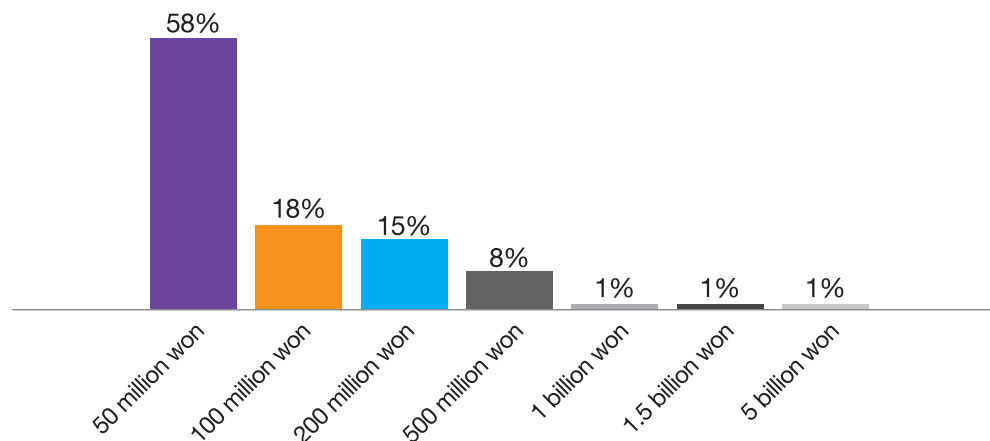
A majority of the 131 KREs in our study operated small, newly established businesses. Sixty-five percent had been open three years or less. Three-quarters of enterprises in our sample employed fewer than four people (including proprietors and paid and unpaid workers). About one-fifth (18%) of KREs were sole proprietors, working by themselves or with a single part-time worker.

Fifty-eight percent of Korean refugee entrepreneurs report less than 50 million won in annual revenues (about US\$44,000), as shown in figure 2.<sup>17</sup> About 41% have annual revenues between 100 million won (US\$88,000) and 500 million won (US\$440,000). Only 3% reported annual revenues above 1 billion won (US\$880,000).

<sup>16</sup> A full description of the methodology is included in annex 4.

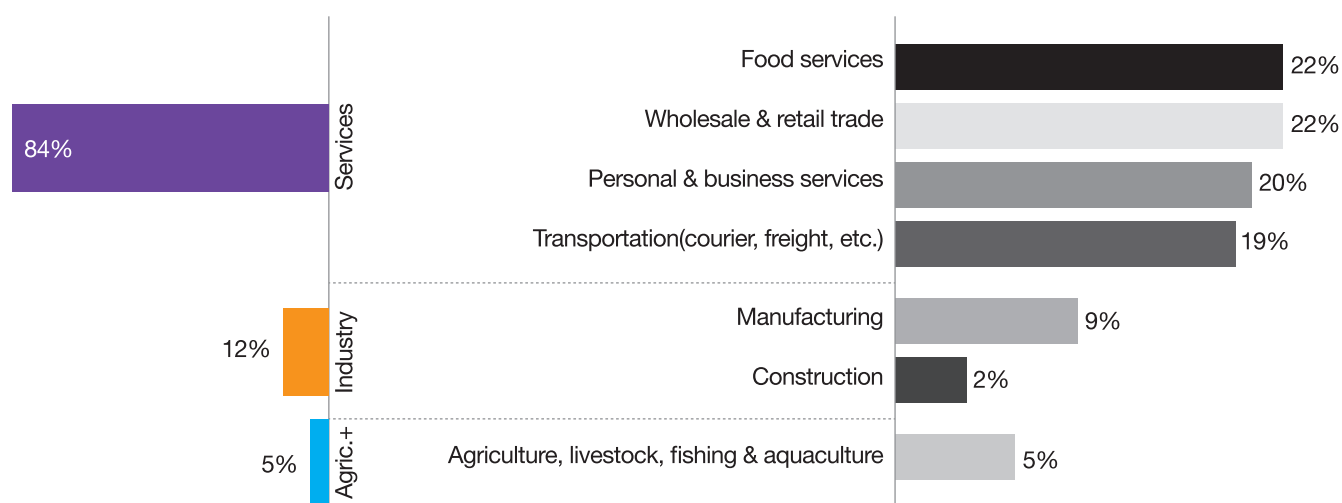
<sup>17</sup> This calculation excludes the very newest startups, 25 companies that had been in business only for a few months.

Figure 2. Yearly revenues in 2017 (n = 131)



As shown in figure 3, the overwhelming majority of Korean refugee enterprises in our survey (84%) are in the service sector,<sup>18</sup> distributed roughly evenly among food services (22%), retail (22%), personal and business services (20%), and transportation (courier, freight) (19%).

Figure 3. Distribution of businesses, by economic activity



The service sector is also the largest employer, accounting for 77% of all employees in surveyed KREs (table 1). Wholesale & retail trade account for the largest employment within the service-sector (18%), followed by transportation & storage (10%).<sup>19</sup>

18 This finding is consistent with the 2015 SBA study (n. 3), with 22% in restaurants, 18% in retail, and 14% in industry/manufacturing.

19 This breakdown is defined by the International Standard Industrial Classification (ISIC) system.

Compared to national data on employment by sector (table 1), refugee-owned enterprises are overrepresented in services (KREs 77%, national 70%), and underrepresented in industry/manufacturing (KREs 16%, national 25%).<sup>20</sup>

*Table 1. Employment, by sector, all South Korea vs. surveyed KREs*

	South Korea	Business surveyed
<b>Agric.+</b>	5%	7%
Agriculture, animal production, Fishing & aquaculture		
<b>Industry</b>	25%	16%
Manufacturing	17%	13%
Construction	8%	3%
<b>Services</b>	70%	77%
Wholesale & retail trade	14%	18%
Transportation & storage	5%	10%
Accommodation & food services	8%	21%
Human health & social work activities	8%	12%

Source: OECD and The Asia Foundation

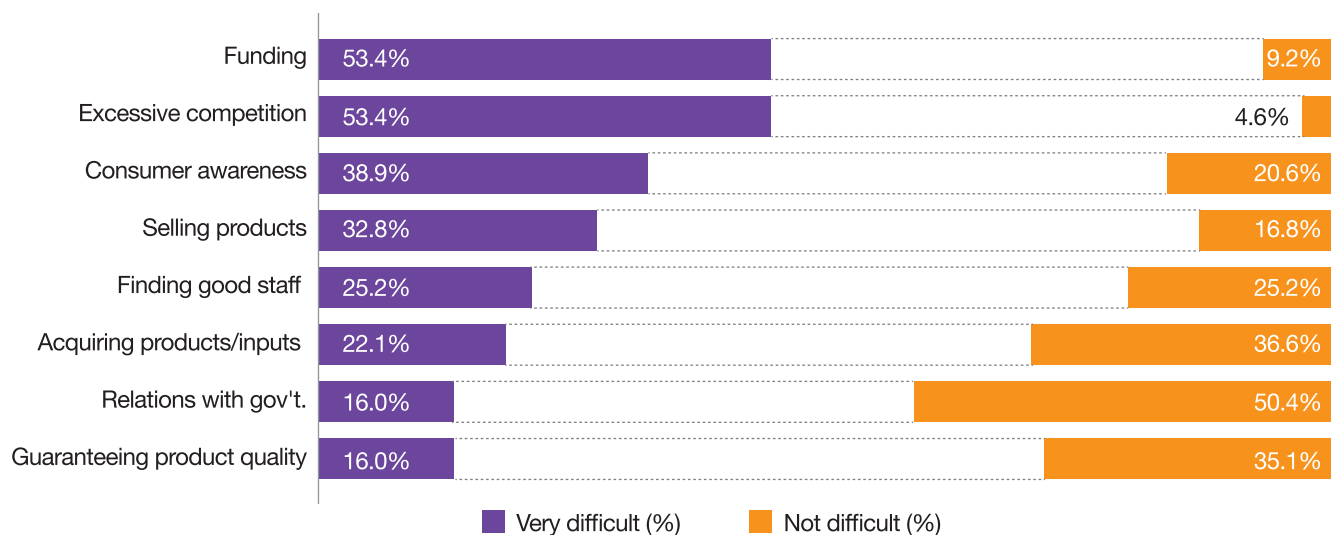
<sup>20</sup> Source of figures for South Korea includes employees, employers, own-account workers, and unpaid family workers ([https://stats.oecd.org/Index.aspx?DataSetCode=ALFS\\_EMP](https://stats.oecd.org/Index.aspx?DataSetCode=ALFS_EMP)). It is important to note that our sample is limited and is not necessarily representative of refugee-owned businesses.



## Key Business Challenges and Obstacles to Growth

In our survey, KREs identified marketing and sales issues and access to finance as Key Business Challenges (KBCs),<sup>21</sup> a pattern seen among all entry-level entrepreneurs in Korea, according to national data.<sup>22</sup> Funding problems and excessive competition were the top challenges, each accounting for 53.4% agreement by respondents as “very difficult.” Other marketing and sales challenges followed: the next two highest KBCs were consumer awareness (38.9%), and selling products (32.8%).

Figure 4. Key business challenges faced by North Korean entrepreneurs



Source: The Asia Foundation, 2018

This was corroborated by open-ended questions: 31% of respondents said funding problems outweighed other obstacles to success. Open-ended questions also identified language and cultural barriers as a top challenge (15%), followed by a lack of business networks (10%).

The following sections will look these top challenges in greater detail: (a) access to finance, (b) marketing and sales, and (c) language and culture. Networking will be analyzed in the context of marketing and sales.

<sup>21</sup> We asked entrepreneurs to rate the difficulty of doing business in South Korea.

<sup>22</sup> According to the Economic Activity Survey 2019 by the Korean Statistical Information Service, the top challenges for entry-level entrepreneurs were “access to finance” (33.5%), “access to business information and know-how” (24.3%), and “access to markets” (21.1%).

## Funding

One entrepreneur interviewed remarked that “financing is difficult...you need at least several hundred million [per financing round in early stages]. Most defectors who come here don’t have that kind of money. *They can’t even imagine it.*”

The majority of KRE firms surveyed (54%) generate between 30 million and 70 million won (roughly US\$26,500 to US\$62,000) in revenues per month. Access to capital is a key factor influencing the choices entrepreneurs make, perhaps most critically when starting up a business.

“Financing is difficult...you need at least several hundred million won. Most defectors who come here don’t have that kind of money. *They can’t even imagine it.*”

Figure 5 shows the range of amounts that proprietors invested in their businesses to get started. To put these numbers in perspective, average monthly earnings among North Korean refugees in 2017 were ₩1,899,000 (~US\$1,700).<sup>23</sup> Table 2 represents these startup investments as multiples of average monthly wages and in U.S. dollar equivalents.

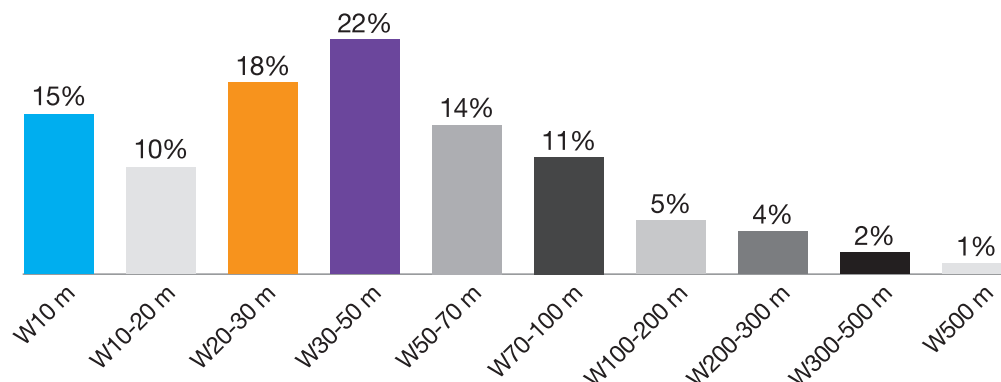
Table 2. Investment equivalents

Amount in Won	As multiple of avg. monthly wages	U.S. Dollar value
₩10,000,000	5.3	\$8,845
₩20,000,000	10.5	\$17,690
₩30,000,000	15.8	\$26,535
₩50,000,000	26.3	\$44,225
₩70,000,000	36.9	\$61,915
₩100,000,000	52.7	\$88,450
₩200,000,000	105.3	\$176,900
₩300,000,000	158.0	\$265,350
₩500,000,000	263.3	\$442,250

Lack of financing is also a critical barrier to expansion. The majority of KREs (63%) wanted to expand their businesses. Of those who wanted to expand, 61% identified lack of funding as the major obstacle. Among those who did not want to expand, excessive competition was cited as the main reason (46%), followed by lack of funding (25%).

<sup>23</sup> Korea Hana Foundation, 2018 Settlement Survey (n. 1)

Figure 5. Start-up investments by KREs



### Managing cash flow from buyers and suppliers

Another subset of financing challenges for KREs includes difficulties receiving payment from clients, supplier performance and bankruptcy risk, managing suppliers, and managing overall cash flow. In North Korea, most transactions are fulfilled immediately in cash. Interviewees reported persistent problems with contracts or invoices that were signed, but for which payments were not received, or collection was difficult. KREs also struggle to manage their cash flow, including the lag time between issuing or receiving an invoice and the payment date. This might apply to receiving a product order, paying suppliers for production, and collecting the customer's payment at the end. KREs complain of paying for expenses from their personal funds, taking time away from business to collect payments, resorting to credit cards, or simply facing nonpayment of sums they are owed. Extending credit to suppliers resulted in at least one KRE interviewed experiencing nonfulfillment when the supplier went bankrupt. Outright fraud—such as clients placing small orders first, then placing large orders and not paying for them—was also reported.

“...in North Korea, if you give the product, you will get the money right away. It's much more difficult to get paid here.”

### Marketing and sales

KBCs related to marketing and sales (excessive competition, consumer awareness, and selling products) were listed as top business challenges in our survey at rates similar to access to finance.<sup>24</sup> The high percentage of surveyed KREs who cited excessive competition as a key challenge suggests a cut-throat style of competition based mostly on price instead of product differentiation. An example might be

<sup>24</sup> Access to finance can be particularly challenging for early-stage companies. In a separate Asia Foundation report on women entrepreneurs, 49.5% of early-stage companies (three years in operation or less) identified funding as their main challenge, compared to 21.3% of later-stage companies (three to seven years in operation). Source: The Asia Foundation (2019) “Accelerate Women's Entrepreneurship and Economic Opportunities in Korea” (Seoul: The Asia Foundation).

competing to sell the same seafood product, using the same wholesale or retail channels, and targeting the same consumers. As one interviewee put it:

*Here, there are more sellers than buyers....It's difficult. I'm not the only person distributing frozen marine products. There are so many others. If I am selling to a customer, there will be other businesses that try to sell to them as well....Stealing customers is the nature of business. It's very stressful.*

At least one entrepreneur identified selling, or the fear of selling, as a key obstacle to starting a business, and networking has been an important way for KREs to overcome the marketing and sales challenge. Box 1 describes the strategies one KRE pursued to make connections and build a customer base. This process is never easy, and the desire for mentors and a meaningful peer network is real. "I have lived here six years, but it is still hard to expand my network.... I wish there were mentors with experience who could help me."

Regarding marketing, refugee entrepreneurs recognize the importance of promoting their businesses, and some expressed interest in receiving training or support in this area, including training in social media advertising.

### **Box 1: KRE strategies to increase sales and networking**

*(excerpts from a KRE interview)*

"I am not even from here, and I do not have a lot of networks, so I have been concerned about whether I can succeed since I started. I have been in South Korea for about 10 years. I've had my own business for about eight. The first four to five years were very difficult. The kimchi company was very difficult, and after that I began the distribution business. The first three to four years were very difficult because of the market. I was running around everywhere. I did not sleep well or eat well. I met with people a lot, went out drinking with them a lot, to cultivate customers. Now, I have made some connections and established relationships. I did not have personal connections. I had to try to find customers in all sorts of places like churches, other people's children's first birthday parties, and weddings. I promoted my business at these events. I took it step by step."

### **Culture and language**

The Asia Foundation research shows that, despite attempts by KREs to communicate with their South Korean peers that they are "all from the same country" and that they, too, are Koreans, North Korean refugees face language and cultural and barriers and, at times, discrimination.



These challenges can include the following:

- *Refugees' own assumptions and mindset about the capitalist system.* Capitalism is a foreign concept for new refugee arrivals from North Korea, and they have a “hard time comprehending a competitive society.”<sup>25</sup> One refugee, who was persuaded to come to South Korea by her cousin, remarked: “When my cousin told me that he got a driver’s license, I thought, ‘they must provide cars.’ When he told me that he had put up wallpaper in his home, I thought, ‘they must have provided a house for him.’ So, I went, but when I arrived, I thought, ‘why did I come here?’”
- Discrimination against refugees. Our survey and most other studies report that discrimination is not as prevalent as is widely assumed. That said, discrimination is still a real issue. It can be both subtle and overt, with real implications for refugees’ well-being and self-esteem. Our interviewees reported being looked down on because they were from the North, and said clients hesitated to use their services because of their accent. Besides the accent, there is personal appearance. Like South Koreans from other regions who try to adopt the Seoul accent, manners, and style, many North Korean refugees find it hard to assimilate. Employers and business owners report experiencing discrimination even from their own employees.<sup>26</sup> Some business owners choose not to reveal that they are from the North, to avoid both discrimination and excessive sympathy.

“I do not tell people I am a refugee... when it comes to business, sympathy is not always good. An equal relationship is best.”

## Laws and regulations

KREs also struggle with legal, tax, and administrative requirements. A few understand that these laws and regulations make it possible to do business with strangers, which is different than North Korea.<sup>27</sup> But many others see regulations—particularly taxation and regulation—as “very complicated.” This unfamiliarity with the system of tax laws and regulations can even get in the way of asking for help, and respondents often described learning things the hard way.

25 Doo-yeon Kim, Principal of Hankkeum, a school catering to North Korean students near Seoul.

26 One interviewee in our research remarked: “When South Koreans talk to us, they just assume that we don’t know some things... [N]ow, even as an employer, I still get discriminated against. For example, when my employee talks to me about insurance or labor relations, instead of saying, ‘this is what I heard, could you do this?’ they say, ‘you should probably do this,’ as if they think I don’t know.”

27 One interviewee remarked: “In North Korea, business is conducted in improper or illegal ways, but here it’s relatively safe, because there are laws that protect you even if you do business with strangers...”

## Supporting Refugee Entrepreneurs in South Korea: Stocktaking and Lessons

### Past and current initiatives

There have been a limited number of initiatives supporting KREs, though with a notable increase in recent years. Of the twelve initiatives identified in this study, six involve NGOs, three involve private-sector collaboration, two are implemented by government agency, and one by academia. Most of them involve some form of training interventions, with a few others adding a financing component. One current initiative involves a startup competition.

A summary of (non-exhaustive list) KRE-specific programs is presented in table 3.

*Table 3. Summary of KRE-related Initiatives*

	Name	Sector	Key intervention
Past	Korea Hana Foundation	Government	Training
	Good People	NGO	Training
	With4U	NGO	Training and financing
	Korea University	Academia	Training
	Merry Year Social Company	Private	Consulting and financing
Current	Federation of North Korean Industries	Chamber of Commerce	Training
	Dankook University / Industrial Bank of Korea / KAMC	Public-Private	Training and financing
	Merry Year Foundation (Merry Startup Program)	NGO	Startup Competition
	PPL (OK Chef)	NGO	Training and financing
	Asan Nanum Foundation (Asan Sanghoe)	NGO	Training
	The Bridge International	NGO	Training and financing
	Korea Hana Foundation	Government	Financing

\* The above list is not necessarily exhaustive. They are illustrative KRE-related initiatives identified in this study and may not reflect all programs in Korea. Fourteen entrepreneurship support programs not specific to refugees were reviewed to compare lessons (see annex 3 for a full description).

## Past and current initiatives

While it is difficult to draw conclusive lessons from KRE-related initiatives (particularly due to the lack of evaluation information), some preliminary themes are worth considering for future programs.<sup>28</sup>

- ***Greater customization is needed.*** Interviews with refugees suggest that a common challenge in business-support initiatives has been the lack of customization. They often characterized the programs as too general and not tailored to their specific needs. Some also brought up challenges in communication and the need for greater cultural sensitivity.
- ***Re-aligning incentives to participants.*** To attract participants, monetary incentives – fee for participation - have been frequently used. Alternatively, entrepreneurs are more likely to be more interested in business results than cash incentives.
- ***Linking interventions with business results.*** Evaluation of these programs, and particularly of the link between interventions and business results, tends to be basic or nonexistent, making it difficult to draw on lessons learned to design future programs. In one instance where an impact assessment was attempted, only one business out of 15 participants was deemed successful.
- ***Project sustainability.*** In one case, a program launched 19 businesses, but funding ran out and the support suddenly stopped. Lack of sustainability and continuity seems to be a common problem for projects supporting KREs.

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<sup>28</sup> The lessons described below are not attributed to specific programs listed above, but drawing from our primary and secondary sources, involving a wide variety of stakeholders involved in our study.

## Supporting Refugee Entrepreneurs in South Korea: Key Recommendations

Korean Refugee Entrepreneurs are a source of untapped talent in South Korea, held back by lack of support in the areas of funding, market access, sales, and other business needs. In light of the present research, and building upon lessons learned and best practices from previous KRE programs in South Korea and programs supporting entrepreneurs throughout the Asia-Pacific, we offer the following recommendations or directions for those who wish to support refugee entrepreneurs in South Korea.

### Key recommendations

#### ***R1: Link support to results and customize training to the special needs of refugee entrepreneurs.***

Training is an appropriate entry point on the pathway to more comprehensive support for KREs. Despite the present lack of evaluation data from other initiatives, two themes can be discerned. First, the link between support programs and business results has been weak. From our findings, none of the KRE trainings have systematically evaluated the business results of their activities. Programs for KREs have adopted traditional business-training methodologies and off-the-shelf modules for traditional subjects like business-plan development, marketing, and finance. Greater customization – including ethnographic studies – could be included.

New training programs can also be tailored to the cultural and psychological needs of KREs and include an assessment of business outcomes. A good example is Personal Initiatives (PI) Training, which is empirically linked to business results (such as sales) and has a history of supporting vulnerable groups and micro-entrepreneurs in developing countries in Africa and the Asia-Pacific.<sup>29</sup>

#### ***R2: Provide comprehensive business support to KREs to ensure that their success will be sustainable.***

To be effective, support for KREs must be comprehensive and sustained rather than piecemeal and intermittent. To avoid duplication of effort, the Asia Foundation recommends linking customized training support for KREs with existing business-support and financing programs for early-stage firms.<sup>30</sup> A variety of funding solutions should be explored, including grants, loans, and equity, which could be facilitated by existing Fintech platforms. A network of donors and angel investors—an investor club focusing on early-stage, high-risk companies—could be assembled in Korea, in Asia, or globally.<sup>31</sup>

29 See Campos, Frese, Goldstein, et al. (2017) “Teaching Personal Initiative Beats Traditional Training in Boosting Small Business in West Africa,” *Science* 357 (6357): 1287–1290. The PI Training was developed in Germany to address the cultural and psychological differences between East and West Germans following unification.

30 The Asia Foundation’s experience with incubators, such as the Mongolia’s Women Business Incubator Centers, can serve as a reference.

31 A preliminary market sounding of this idea with global donors, with respect to KREs in particular, facilitated by Family Offices in Europe and North America, found high receptivity to support Korea Refugee Entrepreneurs.

### ***R3: Strengthen networks, market linkages, and information.***

Given that KREs in our survey identify networking, especially related to sales, as a major challenge, three recommendations should be considered:

*Strengthen Korean refugee business-support organizations.* Woorion and the Federation of North Korean Industry are examples of business-support organizations for KREs. Existing organizations like these that are already working with refugee entrepreneurs should be engaged and strengthened.

*Adopt a multi-stakeholder approach.* The challenges facing KREs and North Korean refugees in general are multidimensional—social, cultural, psychological, and economic. A comprehensive solution will require the resources and collective action of every sector of society—the private sector, government, NGOs, and academia. A model for this style of multi-stakeholder cooperation can be seen in The Asia Foundation’s Coalitions for Change initiative in the Philippines, which convenes multiple stakeholders to solve shared problems through a common vision and a shared set of metrics.<sup>32</sup>

*Launch a supplier linkages program for refugee entrepreneurs:* To facilitate sales and prepare business to carry out these sales, support programs that links buyers and suppliers (supplier-development programs) may include training and quality standards development to meet buyer requirements; joint supplier consolidation programs (coordinating and consolidating purchases from several smaller suppliers); and value-chain credit facilities. Larger companies can also serve as role models and mentors for smaller companies.<sup>33</sup>

### ***R4: Celebrate refugee entrepreneurial success.***

This Asia Foundation study showed how poorly KREs are understood by the rest of South Korean society (and the world). Giving them “soft” support, by celebrating and honoring these extraordinary entrepreneurs, would go a long way towards erasing the barriers between the refugee community and South Korean society,<sup>34</sup> and motivate other refugees to start businesses. Possibilities include awards programs, such as Legatum’s Pioneers of Prosperity program, and other high-profile events to celebrate successful refugee entrepreneurs.

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32 Coalitions for Change (CfC) is the centerpiece of a partnership between the Australian Embassy and The Asia Foundation in the Philippines. CfC focuses on key policy reforms to improve the lives of Filipinos and promote their economic well-being, and encourages civil society, the private sector, academia, and government to work together to formulate public policies that contribute to development-reform priorities for the Philippines.

33 Supplier development is a “long-term cooperative effort between a buying firm and its suppliers to upgrade the supplier’s technical, quality, delivery, and cost capabilities and to foster ongoing improvements.” (Watts and Hanh, 1993) An example include training provided by the buying company to suppliers on packaging requirements. A higher degree of cooperation between buyers/suppliers could include co-sharing the cost of quality standard certification (e.g. ISO) program.

34 For an in-depth treatment of the importance of celebrating entrepreneurs, see Steven Koltai (2016) *Peace Through Entrepreneurship: Investing in a Startup Culture for Security and Development* (Washington, D.C.: Brookings Institution Press).

Table 4. Contains a summary of recommendations to support KREs

	Pre-venture stage (less than 3 years)	Venture stage (3–7 years)	Growth stage (7+ years)
R1: Customize support and link it to results	<p>Create training programs that</p> <ul style="list-style-type: none"> <li>• Have a verifiable impact on business results</li> <li>• Are tailored to the needs of KREs, including ethnographic approaches (e.g. Design Thinking) and others with greater focus on customization.</li> </ul>	<p>In addition to training mentioned for Pre-Venture, provide</p> <ul style="list-style-type: none"> <li>• Technical Assistance (T.A.) and/or coaching on access to markets, including points of sale and distribution channels.</li> <li>• Tailored T.A. and/or coaching/training interventions on business plan development.</li> </ul>	<ul style="list-style-type: none"> <li>• Assign mature KREs as mentors to early-stage enterprises.</li> <li>• Potential role as a buyer in the supply chain for smaller firms (buyer-supplier relationship).</li> </ul>
	<p>Connect pre-venture stage entrepreneurs with mentoring or apprenticeship in more mature companies (by industry or by desired skill).</p>	<p>For selected firms, (a) receive mentorship from growth stage companies, and (b) provide mentorship to earlier-stage firms.</p>	<p>Provide mentorship for earlier-stage firms.</p>
R2: Link training with funding and comprehensive support	<p>Link training to financing and other business-support services that are comprehensive rather than piecemeal and intermittent. This can be implemented in collaboration with existing programs to support KREs in order to:</p> <ul style="list-style-type: none"> <li>• Develop a comprehensive support program that links KRE participation with tangible business rewards—e.g., opportunities for top participants to submit business plans and receive financing.</li> <li>• Identify and link to existing sources of funding (public and private) available to KREs</li> <li>• Access to finance. Early stage is the riskiest given the early stage of firms: funding can be in the form of grants and matching grants. Debt or equity could be selectively used. Grants can also subsidize setting up a first-loss guarantee (collateral) fund to encourage commercial banks to lend to higher-risk, early-stage companies.<sup>35</sup></li> <li>• Link to angel investor networks.</li> </ul>	<p>In addition to the comprehensive support initiatives mentioned in Pre-Venture:</p> <p>Link training with comprehensive financing and business support, linking to business support (incubators), co-working space, as applied to early-stage firms. As a reference, see TAF Mongolia Women's Incubator Center.</p> <p>Access to finance should include risk-adjusted capital, including angel investors and venture capital (less risk than early stage, but higher risk than growth stage).</p> <p>Link to existing incubators or accelerators to provide comprehensive support, such as existing incubator and support programs.</p>	<p>Later-stage firms serve as role models and business partners for early-stage firms. Identify market linkages, trade missions, and business clusters.</p> <p>Provide grants to compensate later-stage firms for time and other costs to support earlier-stage firms.</p>



	Pre-venture stage (less than 3 years)	Venture stage (3–7 years)	Growth stage (7+ years)
R3: Strengthen networking, market linkages, and information	Consider adopting a multi-stakeholder approach to identify shared sectoral challenges in the local community with potential business solutions (e.g., recycling, healthcare). Examples of multi-stakeholder or collective impact exercises include The Asia Foundation’s Coalitions for Change initiative and Collective Impact programs.	Supplier development program: Support firms in the early phase and participate in supplier development program with larger firms.	Supplier development program: Participate as a buyer or client for early-stage companies.
R4: Celebrate successes of KREs	Participate in an awards program (general, or specifically tailored to early-stage ventures).	Participate in an awards program (general, or specifically tailored to venture-stage firms). <sup>36</sup>	Participate in an awards program as mentors and role models.
Communications campaign to promote KREs (including managed media events)			

35 First loss guarantee are commercial facilities which can be subsidized by grants and public funds. They serve as collateral to incentive banks to lend to riskier firm groups which would not been otherwise possible. The guarantee facility acts like a collateral for enterprises which cannot afford the collateral (which is most cases). Therefore, the lending risk is transferred from the bank to the donor (or the guarantee facility), which is assuming the risk of certain quasi-commercial in order to ensure that more funding can go to MSMEs. For more information: <https://thegiin.org/assets/documents/pub/CatalyticFirstLossCapital.pdf>.

36 One example is Pioneers of Prosperity, an awards program for entrepreneurs in Central America and Africa funded by foundations, multilaterals, and the private sector.

## Annex 1: Comments from Korean Refugee Entrepreneurs (Open Questions)

### Marketing and sales

I felt that this business was one that could not succeed with just brochures, PR catalogues, etc. This is all about personal connections. Before I opened this business, I took elderly defectors to various programs in Incheon while participating in Incheon society, so I knew a lot of people. I hoped that I could use these connections to establish my business, but it wasn't easy.

Because my accent is easily recognizable, guardians hesitated to use our services. So, I thought about hiring someone, but you need to have connections to find someone to hire.

Our business is to assist elderly refugees and other North Korean refugees whose parents are in South Korea, and we promote our services to acquaintances who have parents here.... On weekends, I met with caregivers and went to events, churches... and people began using our services.

Promotion and advertising are difficult for us. Eventually, I started a homepage, but then I realized that we need to promote the business. We need to use certain social media apps like Instagram, but we do not have a lot of knowledge. And if I get help, I will have to pay money. I'm using some consulting services and receiving support from Gift Car.

### Connections

But when you start your business, you have to think about marketing, competition...I am not even from here, and I do not have a lot of networks, so I have been concerned about whether I could succeed since I started.

I have been in South Korea for about 10 years. I have had my own business for about eight years. The first four to five years were very difficult. The kimchi company was very difficult, and after that I began the distribution business. The first three to four years were very difficult because of the market. I was running around everywhere. I did not sleep well or eat well. I met with people a lot and went out drinking with them a lot to establish customers. Now, I have made some connections and established relationships.

I did not have personal connections; I had to try to find customers in all sorts of places like churches, other people's children's first birthday parties and weddings. I promoted my business at these events. I took it step by step. A lot of things are new in South Korea. I have lived here six years, but it is still hard to expand my network.... I wish there were mentors with experience who could help me.

Being a defector is not really an issue. If you work hard you can gain people's trust.... Even if the person is difficult, you can win them over.... [I]f you are too introverted, it will be harder. You need to know how to approach and deal with people even if they offend you.

### Competition

Here, South Koreans have started all types of businesses already. It is not easy to steal customers from others. There are already a lot of established businesses here, so it is hard to keep up.

Here, there are more sellers than buyers. ...It is difficult. I am not the only person distributing frozen marine products. There are so many others. If I am selling to a customer, there will be other businesses that try to sell to them as well. ...Stealing customers is the nature of business. It is very stressful.

### Risk

*What challenges did you face when starting your business? What were the main difficulties?*

I was worried whether there would be places to sell the goods—customers. I can begin the business with what I have, but if I am unable to sell, it is difficult for my family to survive. My first concern was whether I would be able to make enough money.

In North Korea and China there are no taxes. Here, the tax system is very complicated. But it is still harder in South Korea in terms of competition. Not that there is not any competition in North Korea, but it is different from here. There, you can earn money right away. But here, you need to put in long-term effort.

### Payments systems

In North Korea, most transactions are one to one. There are no installment payments or anything like that. So, in my mind, I need to have the capital to start something.

*Do you think that operating a business is more difficult in North Korea or South Korea?*

I think South Korea is more difficult in all areas because of the difficulty of getting paid. At first, when we signed a contract, we sent the goods without having received any money. They did not pay in the end. So now, we get some money first before selling a product. It is better than not selling at all. It is hard to get paid for the goods you provide. But in North Korea, if you provide the product, you get the money right away. It is much more difficult to get paid here.

*You did not experience this in North Korea?*

I do not think so. When I sold goods such as recorders, TVs, bicycles... it was all one-to-one interactions, and I received cash immediately, on the spot. But here, payment is received later. On the shopping mall websites, you sometimes receive payment 15 days later or one month later. I cannot acquire more products or pay employees until the money comes in, so it is difficult, because I have to wait for it. So, unless you have a lot of seed money, it is hard to keep operations running. You may have to pay your employees out of pocket.

Recently, I obtained credit of 150 million won from a new client I have never traded with. I feel confident in this area. I do not have any intent to cheat anyone, and I think this shows.

There are some people who begin with good transactions at first, and then they put in a big order and do not pay.

If we need money urgently to acquire products, then we have no choice. We need to get credit card loans or something like that. Funding is difficult. If we do not borrow money, we will not get the products to send to our customers.

*You said you closed down a business before. Could you explain that period in more detail?*

*[Payment system and bankruptcy]*

We made an advance payment to the other company to manufacture goods. But that company went bankrupt.... I will no longer make advance payments. I will pay once I receive the product. I will provide credit, but not advance payments. We provide advance payments only when we purchase equipment. We ordered equipment from the U.S. that costs about 42 million won per unit. We have 12 of these scheduled to arrive tomorrow. We made a 30% payment in advance and the remaining 70% we will pay once we receive the product.

I did not really pay attention to accounting in North Korea. I smuggled and received money personally, but I didn't pay attention to how much I earned or used.

### Motivation and rewards

*[Describing the experience as being stressful but preferable to salaried employment]*

I thought, "Until when must I live as a salaried employee? When can I do it on my own?" That is why I started [a new business]. I did not like the passive nature of a salaried employee's job.

I defected because I did not like the oppression and control I faced in North Korea. I was in jail for 10 years, from the ages of 4 to 14. When I was 22, I got married and was controlled again. While I was in China, I was in hiding. I was always oppressed, so I wanted to be free. Also, now I have status here....

If you work for someone else, you work during a set time and you get paid just for that amount of work. But with your own company, you take more of the profit. And with the money I earn, I can support others in need. I cannot do this if I am just an employee.

I feel good when I work hard and make a profit. You cannot experience that in North Korea.

### Language, culture, and discrimination

*"I feel like they look down on me because I am a defector."*

When South Koreans talk to us, they just assume that we do not know some things.... [N]ow, even as an employer, I still get discriminated against. For example, my when my employee talks to me about insurance or labor relations, instead of saying, 'this is what I heard, could you do this?' they say, 'you should probably do this,' as if they think I don't know.

I do not tell people I am a defector. If I do, I feel like I am revealing my weakness.... [W]hen it comes to business, sympathy is not always good. An equal relationship is best.

There was someone who wanted to sell me their car. It was a BMW X6, and they told me it would be calculated according to the market price and sold it to me for 60 million won. But I did not know about leased cars, so I was almost cheated.

I told her I am a defector. We are from the same country; our country was just divided.... No matter where I am from, I am Korean.

### Giving back to the community

I would like to develop a system where defectors can learn from the experiences of other, successfully settled defectors. I would like to construct a building for that purpose. They could come here and experience the sea, sales, and products. That is my dream.

Hanawon does provide education, but a lot of defectors do not understand it. It is frustrating, and they do not understand the procedures and the system... So, I want to set this organization up to help defectors and guide (help lead towards) unification.

## Annex 2: Korean Refugee Entrepreneurs (Facts and Figures)

### Survey respondents

Most refugees surveyed arrived in South Korea between 1997 and 2017. Figure A-1 compares the demographic profiles of our sample group of refugees, who arrived during the same period.<sup>37</sup>

Figure A-1

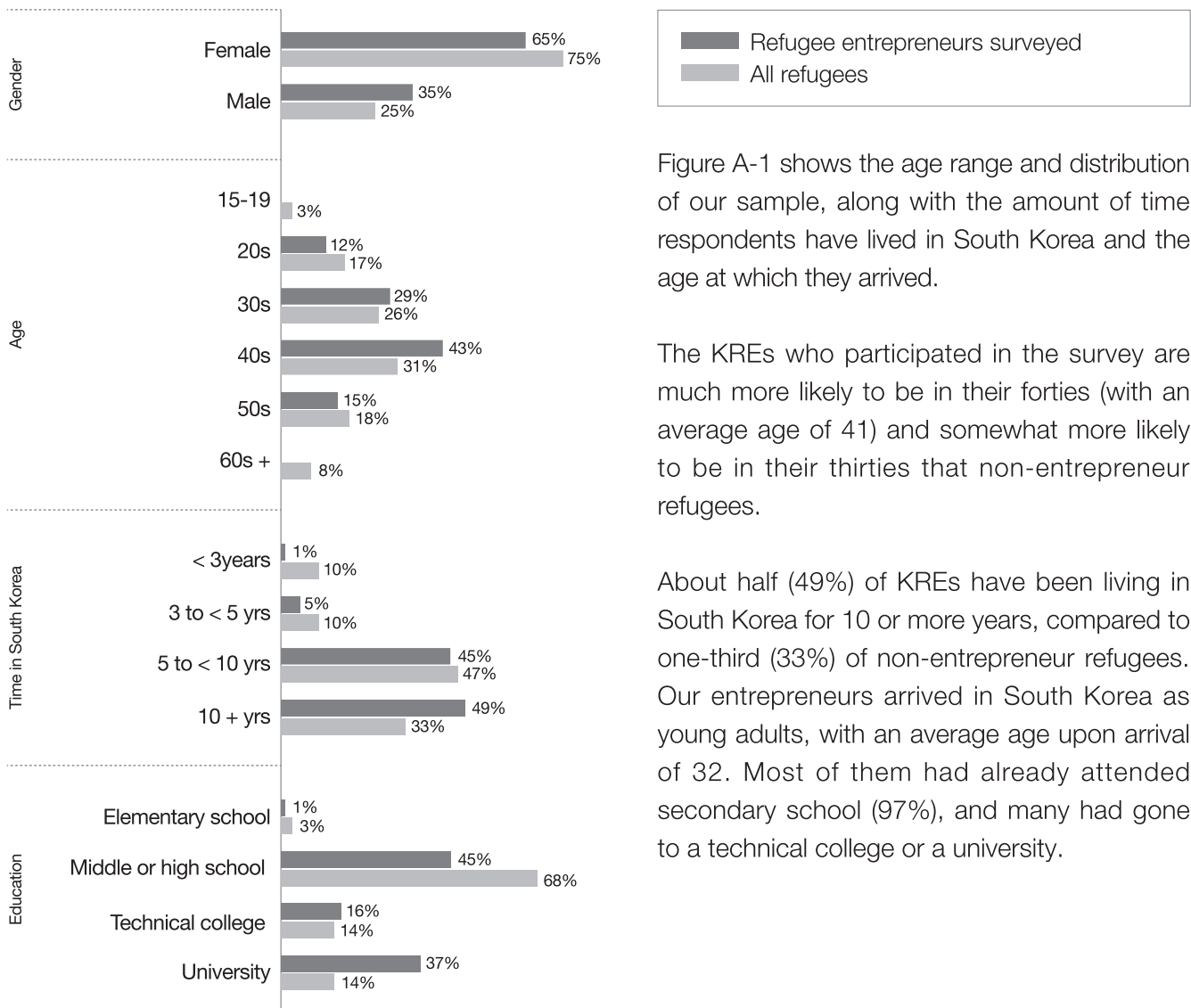


Figure A-1 shows the age range and distribution of our sample, along with the amount of time respondents have lived in South Korea and the age at which they arrived.

The KREs who participated in the survey are much more likely to be in their forties (with an average age of 41) and somewhat more likely to be in their thirties than non-entrepreneur refugees.

About half (49%) of KREs have been living in South Korea for 10 or more years, compared to one-third (33%) of non-entrepreneur refugees. Our entrepreneurs arrived in South Korea as young adults, with an average age upon arrival of 32. Most of them had already attended secondary school (97%), and many had gone to a technical college or a university.

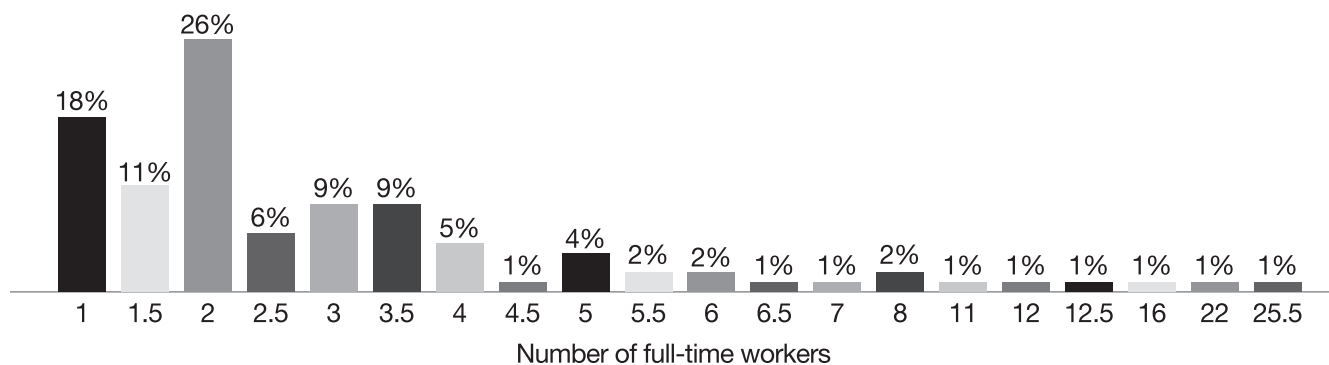
<sup>37</sup> All but one of the refugees surveyed arrived during this time period.



**Full-time workers**

Figure A-2 shows that three-quarters of enterprises in our sample employ fewer than four people, including paid and unpaid workers and proprietors. Solo entrepreneurs (i.e., owners working by themselves or with a part-time worker) comprise 18% of the businesses surveyed.

Figure A-2



Fifty-five percent of enterprises employ two or fewer full-time equivalent (FTE) workers—i.e., one part-time person along with the owner—for an average of 1.6. About a quarter of firms operate with 3.1 FTE workers, 17% employ an average of 5.3 FTE workers, and only 5% can be classified as small- to medium-size businesses, with 16.5 workers.

**Years of operation**

Seventy-two percent of businesses surveyed have been open three years or less (figure A-3). Nearly one-fifth are fledgling enterprises, launched in the few months just prior to our survey. Only 7% have been operating for seven years or more.

Figure A-3

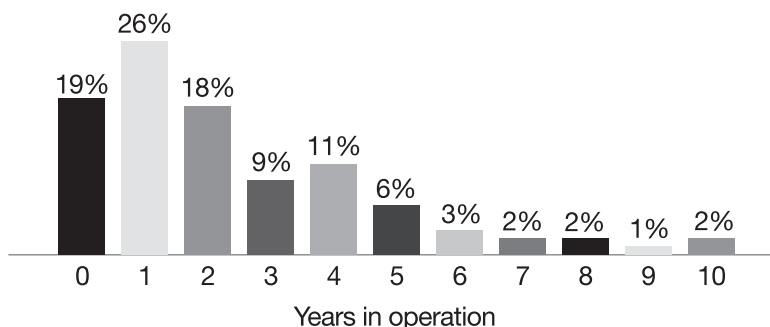


Figure A-4. Key business challenges

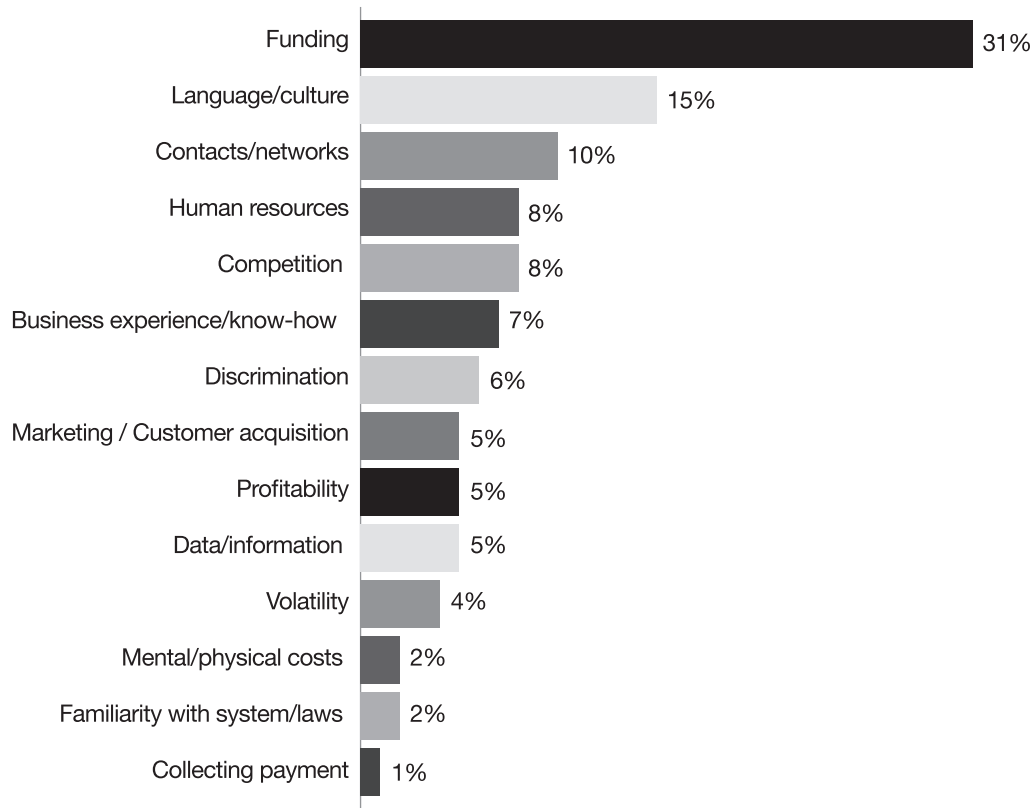
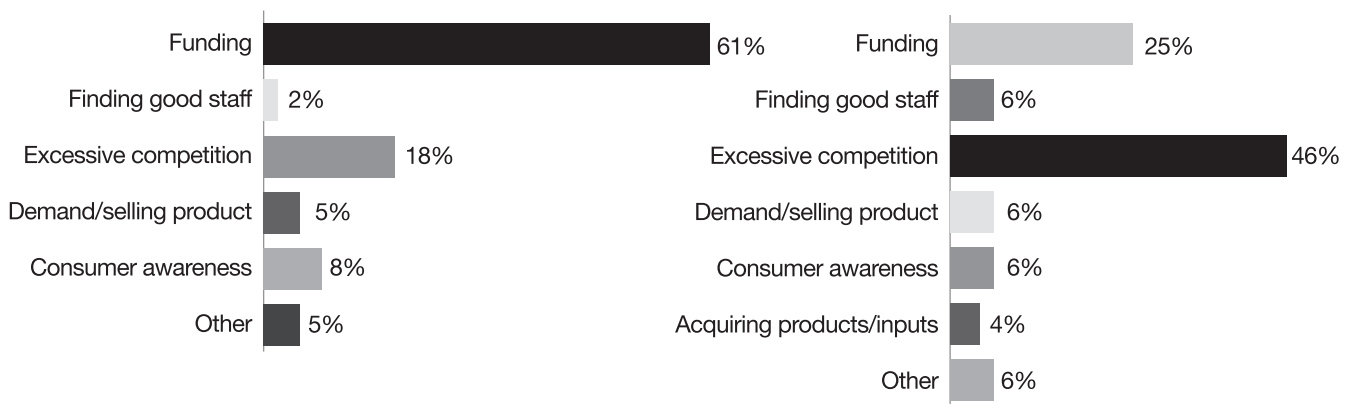


Figure A-5. Key obstacles to expansion

What is your biggest impediment to expansion?



Do you wish to expand?



Figure A-6. Business challenges for pre-venture firms (< 3 years old)

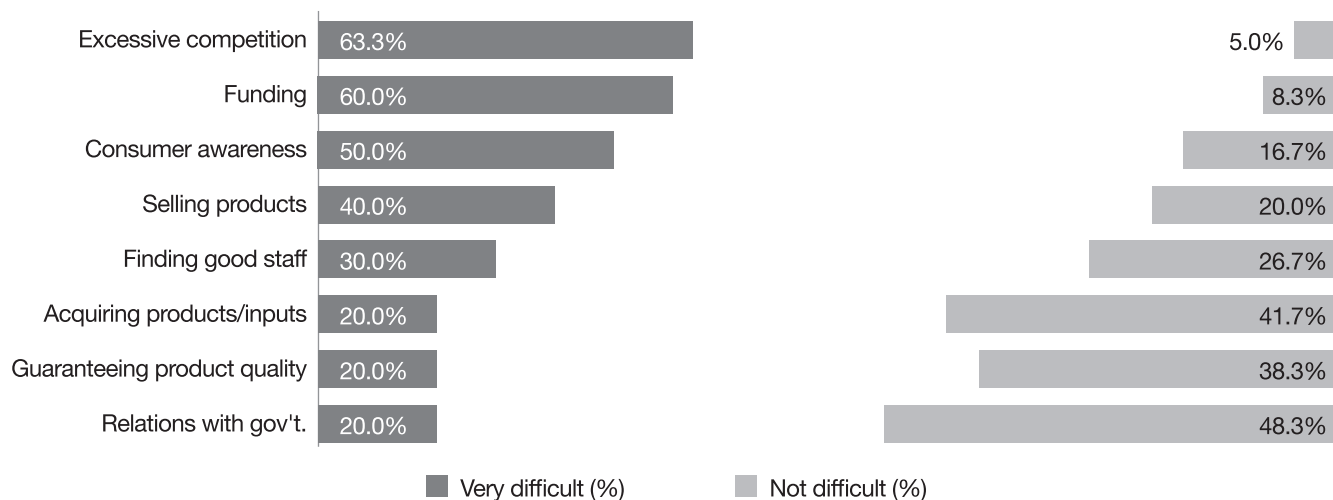


Figure A-7. Business challenges for venture firms (3–7 years old)

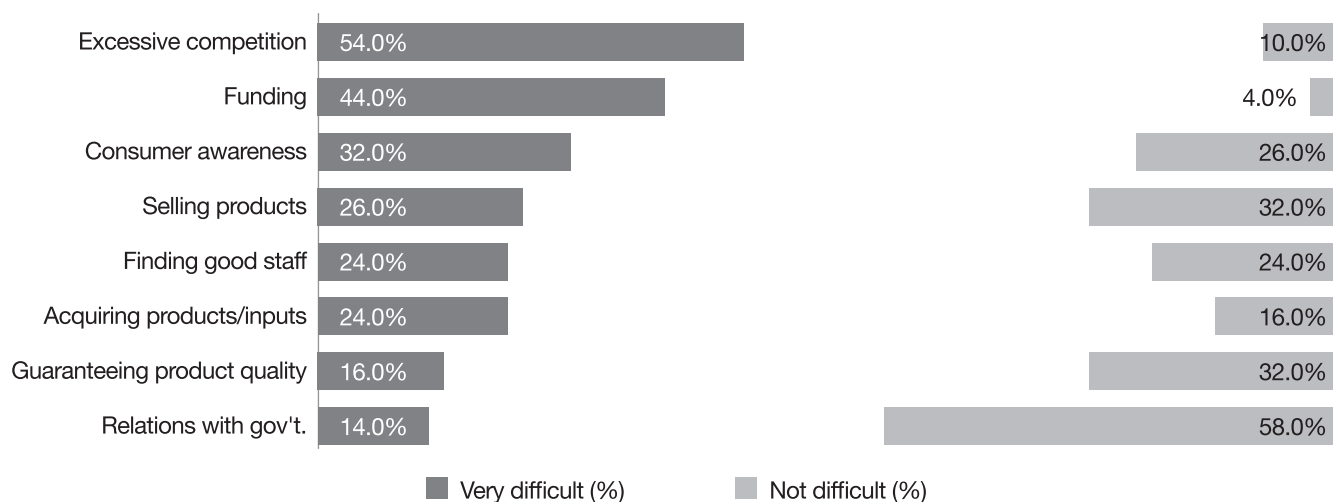
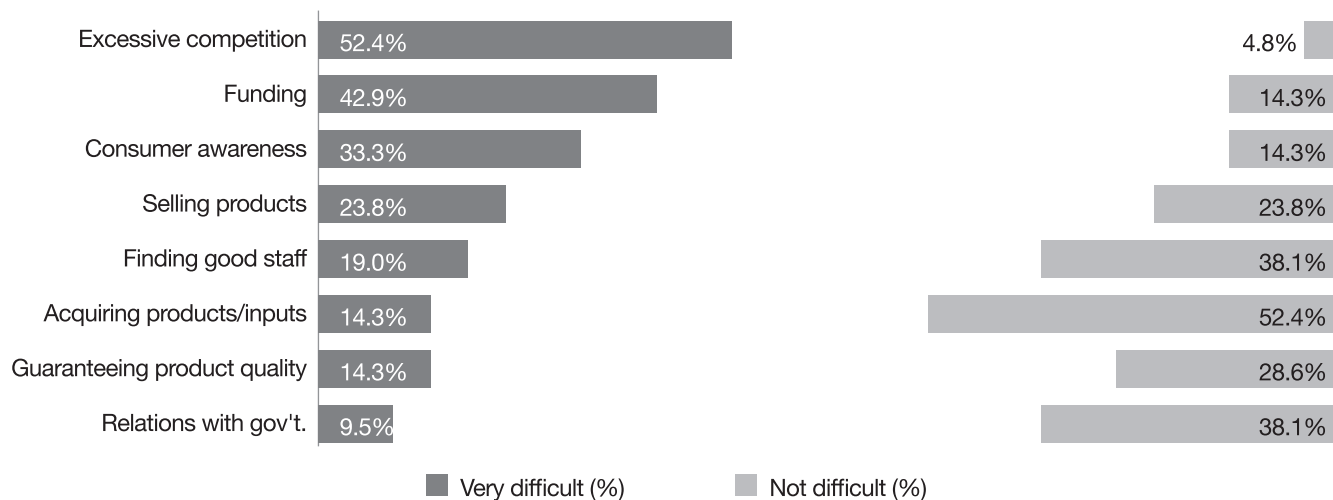


Figure A-8. Business challenges for growth firms (7+ years old)



## Annex 3a: Sample of Past Programs for Korean Refugee Entrepreneurs

Table 3A-1

Sector	Program End Year	Description	Lessons Learned
Government	2016	A 1.5-day program which trains North Korean refugees on basic business skillsets. The number of participants reached 80 per session, but gradually decreased to 15 per session	Linkages between training and other business interventions necessary for program sustainability
NGO	2014	A 6-month program which trains North Korean refugees business capacity to manage their own convenience stores. A total number of 19 stores have opened as a result of the program.	High program practicality which leads to actual store openings. However, its end of operation due to lack of funding implies necessity for financial sustainability of the program.
NGO	2014	A business support program which provides a combination of business training and financial loan support for North Korean refugees.	No details
Public-Private Partnership	2015	A multi-round program which provides business training, collaboration opportunities, English training, mentoring, and internship opportunities and financial support up to \$40,000 USD.	A comprehensive attempt to support North Korean business leaders. Key feedback included difficulty in mobilizing participants, sustaining their commitment to the program, and attitude / mindset

## Annex 3b: Sample of Current Programs for Korean Refugee Entrepreneurs

Table 3B-1

Sector	Program Start Year	Description	Lessons Learned
Public-Private Partnership	2014	An 8-month program collectively operated by different sectors (Government, Academia, Public Bank, Private Sector). The government mainly funds the program, academia manages training and business incubation, the bank supports loans for participating businesses, and the private sector supports post-failure recovery.	Despite collective efforts of diverse range of players, the program lacked number of success cases (only 1)
NGO	2015	A biennial startup idea competition for a mixture of North Korean refugees and South Korean participants. Provides selected group with business training, along with financial loans and grants for Top 3 teams.	Not much details on the current performance of the winning teams. Linkages with other business engagement is sustaining and growing is required.
NGO and Private Sector	2015	A multi-year program which provides North Korean refugees training and financial support to own and manage their own branch of a restaurant franchise. The ownership of the branch is transferred to the selected program participants after 3-years of effective operation.	The program is acknowledged as one of the successful business support programs that target North Korean refugees. This program took a long-term approach and minimalized the risk of North Korean refugees through handling over the business for only those who showed successful store management. This was made possible as the managing organization (NGO) registered for a for-profit entity and operated their own franchise brand to cover the risk.
Private Sector	2019	A 4-month business training program that hosts 30 participants per batch, composed of North Korean refugees, South Koreans, and foreigners.	First attempt to initiate a team-based approach composed of different groups. The effectiveness of this novel approach is too early to assess at this point.

## Annex 3c: Sample of Current Programs for Non-Refugee Korean Entrepreneurs

Table 3C-1. Micro-enterprise support

Category	Sector	Description	Pros	Cons
Training / Biz Support	Public	Selects prospective entrepreneurs and provides a package of support that include business training, commercialization support, store management training, and business development.	Provides comprehensive management training that are not tech-based. Provides hands-on store management training and coaching through actual experience.	Lacks financial support to enable participants to develop their ideas and trained capacity into actual business
Funding / Biz Support	Public	Facilitates startups in niche market that is closely linked to people's daily lives to create new jobs and reduce concentration of necessity driven businesses - providing required funding and mentoring.	The loan does not need to be repaid if the borrower's business fails despite of diligent efforts. Facilitates innovation through business in sectors closely linked to daily lives	Details on business support via mentoring are limited
Biz Support	Public	Provides on-field, customized consulting services for business enhancement for entrepreneurs of small businesses that face challenges. The program selects and sends experts that best fit the client's industry and area of challenges	Wide range of consulting areas	The effects of the consulting program were rather questionable, based on media
Training / Biz Support	Public	Provides business support and training required for all stages in re-starting a business from preparation and actual business management.	Provides psychological counseling and mindset training for participants to re-motivate them to re-start business. Linkage to other policy funds for small enterprises.	Training not as intimate as trainings provided by other programs.



Category	Sector	Description	Pros	Cons
Biz Support	Public	Provides support for small businesses to scale up through 'franchising'. Provides support in establishing appropriate franchise business models, train franchisees, develop standard manual, and establish common database for all stores	Effectively utilizes the 'franchise model' to scale up small enterprises, and provides in-depth relevant support	Franchise model may not be relevant or effective for some businesses. Prior assessment on potential effectiveness of franchise model is required
Funding	Public	Identifies entrepreneurs that have experiences in recent business failures, provides analysis support in causes of the failure, training, commercialization fund, exclusive workspace, and mentoring to support the entire process of re-startup.	Provides low-interest loans to small business owners primarily for 1) business growth and 2) business stabilization	N/A

## Annex 4: Survey and Research Methodology

This research measured and analyzed factors inhibiting and enabling Korean Refugee Entrepreneurs (KREs) in South Korea. A literature review was first conducted through national surveys and domestic research to understand and analyze the key business challenges and obstacles KREs are facing. Through the literature review and primary data collection, this research portrayed general facts and characteristics of North Korean refugees as well as obstacles they face when running a business. The key challenges were summarized as below:

- Funding
- Marketing & Selling
- Culture and Language
- Laws and Regulations

The primary research included an online survey of 131 participants and individual interviews. The following data was collected from KREs residing in South Korea, identified by Woorion, the largest refugee run NGO that provides support services for North Korea refugees in South Korea. The research included a mix of a quantitative and qualitative methods, delineated as below:

### Online Survey

#### a. Overview (N=131)

Respondents	131 KRE business owners, with complete business registration in South Korea.
Sampling method	Non-probabilistic selection of respondents through word-of-mouth and calls for participation via the Woorion social network. » Given the small size of the universe of the target population (with estimates varying from 1,000 or less), random sampling methods were not feasible. Survey participants were asked to provide their business registration information for verification purposes.
Survey method	Online survey (84 questions)
Survey period	March ~ August 2018
Quality Control	Business registration verification via South Korean government portal Follow-up communication on inconsistent answers Discarding invalid responses.
Key survey topics	General characteristics of owners and firms: » Owner: gender, age, family details, place of birth in North Korea, previous experiences in North Korea and China including business operation, experiences in South Korea. » Firms: industry, status, years of operation, business failure experiences, financing, experience employing North Korean refugees, plans of expansion, experience of support from the government, comparison between doing business in North and South Korea. Perceptions of challenges: Access to capital, competition, regulations, and quality control.

## b. Characteristics of Survey Respondents

<b>General Attributes</b>	
Number of respondents	131
Average age	41
Number of female respondents	85 (65%)
<b>Pre-migration attributes</b>	
Average number of years spent in North Korea	27
Average year of defection	2005
Completed high school or above	127 (97%)
Completed university or above	45 (34%)
From Sino-North Korea border provinces	101 (77%)
Perceived living standard in North Korea	
Highest (No problem purchasing expensive items; e.g., apartment)	36 (28%)
Middle-high (No problem purchasing consumer items; e.g., refrigerator)	11 (8%)
Middle (Could purchase basic goods, but difficulty purchasing consumer items)	45 (34%)
Lower-middle (Enough to eat and live, but no money for consumer goods, e.g., clothes)	9 (7%)
Lowest (Surviving each day was difficult)	30 (23%)
Party Member	21 (16%)
Father a Party Member	78 (60%)
<b>Post-migration attributes</b>	
Spent significant amount of time in China (>3 years)	56 (43%)
Average number of years spent in South Korea	10
Average year of arrival in South Korea	2008
Completed high school or above in South Korea	46 (35%)
<b>Previous Business Experience</b>	
Business experience in North Korea	83 (63%)
Has run a firm in South Korea previous to the current one	29 (22%)

## Interviews

## a. Overview (N=10)

Number of Respondents	• 10
Interview Period	• March ~ August 2018
Subject Selection	• Selected among the 131 respondents. Three interviewees were selected based on their high revenue size (yearly revenues more than 1 billion won). Seven were randomly chosen from the pool of respondents based on their industry group.
Interview Method	• 1:1 interview with Woorion staff and researchers.
Major interview topics	<ul style="list-style-type: none"> <li>• Economic life in North Korea.</li> <li>• Economic activities in South Korea before starting a business</li> <li>• Motivation for initiating a business.</li> <li>• Reasons for choosing a specific industry.</li> <li>• Challenges for doing business in South Korea.</li> <li>• Intentions to expand the business.</li> <li>• Experience facing a discrimination in South Korea.</li> </ul>

## b. Characteristics of Interviewees

		No. of respondents (N)	Ratio (%)
<b>Total</b>		<b>10</b>	<b>100%</b>
Number of business operation years in South Korea	Less than 3 years	1	10%
	3 years to 7 years	5	50%
	More than 7 years	4	40%
Age	30 to 40	3	30%
	40 above	7	70%
Number of employees	None	2	20%
	Less than 4 people	2	20%
	10 people or more	6	60%
Business category	Manufacturing (i.e. machinery, automobiles)	1	10%
	Manufacturing (consumer goods)	2	20%
	Service/Distribution	7	70%
Experience in North Korea / China	Retail / Sales	6	60%
	Service	3	30%
	N/A	1	10%
Experience in South Korea before opening business	Retail / Sales	1	10%
	Service	6	60%
	Manufacturing	3	30%
	N/A	0	0%









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