Promoting Innovation-Led and Technology-Driven SMEs

By:
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SMI DEC

ASIA PACIFIC CONFERENCE ON MANAGEMENT OF TECHNOLOGY AND TECHNOLOGY ENTREPRENEURSHIP

30TH OCTOBER 2008
HOTEL EQUATORIAL, MALACCA
OUTLINE

- SME Development in Malaysia
- Innovation – Some Perspectives
- Developing Innovation-Led and Technology-Driven SMEs
SME DEVELOPMENT IN MALAYSIA
DEFINITION OF SMEs

Manufacturing, Manufacturing Related Services and Agro-based Industry

Annual sales turnover < RM25 million
OR
Full time employees <150

Services, Primary Agriculture, Information and Communication Technology (ICT)

Annual sales turnover < RM5 million
OR
Full time employees < 50
# Definition of Micro, Small and Medium

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>MICRO</th>
<th>SMALL</th>
<th>MEDIUM</th>
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<tbody>
<tr>
<td>Manufacturing, Manufacturing-related services &amp; Agro-based Industries</td>
<td>sales turnover &lt; RM250,000 OR full time employees &lt; 5</td>
<td>RM250,000 &gt; sales turnover &lt; RM10 mil. OR 5 &gt; full time employees &lt; 50</td>
<td>RM10 mil. &gt; sales turnover &lt; RM25 mil. OR 51 &gt; full time employees &lt; 150</td>
</tr>
<tr>
<td>Services, Primary Agriculture and Information &amp; Communication Technology (ICT)</td>
<td>sales turnover &lt; RM200,000 OR full time employees &lt; 5</td>
<td>RM200,000 &gt; sales turnover &lt; RM1 mil. OR 5 &gt; full time employees &lt; 19</td>
<td>RM1 mil. &gt; sales turnover &lt; RM5 mil. OR 20 &gt; full time employees &lt; 50</td>
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</table>
TOTAL ESTABLISHMENTS BY SIZE

- Total establishments = 552,804
- No. of SMEs = 548,267 (99.2%)

Source: Census of Establishments & Enterprises 2005 – Profile of SMEs
NINTH MALAYSIA PLAN (9MP) (2006 - 2010)
STRATEGIC THRUSTS UNDER 9MP

- Provide more focused incentives for high value-added industries
- Innovation-driven SMEs
- Services support for the manufacturing sector – branding
- Enhancing technological capability and capacity of SMEs
- Improving access to financing for SMEs
- Financing new sources for growth
- Strengthening SMEs in distributive trade

SOURCE: IMP3 2006 - 2020
Industrial Master Plan 3
Enhancing the competitiveness of SMEs

Capitalising on outward investment opportunities

Driving the growth of SMEs through technology, knowledge and innovation

Instituting a more cohesive policy and supportive regulatory and institutional framework

Enhancing the growth and contribution of SMEs in the services sector

SOURCE : IMP3 2006 - 2020
KEY INITIATIVES PROMOTING SMES DEVELOPMENT

Three (3) broad strategic thrusts for the development of competitive and resilient SMEs:

- Strengthening Enabling infrastructure
- Building the capacity & capability of SMEs
- Enhancing access to financing

(SME Annual Report 2005)
SMEs AND THEIR IMPORTANCE TO THE MALAYSIAN ECONOMY

SMEs Contribute:

- 32 per cent to GDP
- 56.4 per cent to Employment; and
- 19 per cent to Export;
INNOVATION ~ SOME PERSPECTIVES

Innovation ~ Why?
CASE STUDY – SUCCESSFUL SMEs
Basic Information

Business Type : Manufacturer
Product/Services : Electrical Appliances
Employees : 130 people

Trade & Market

Main Markets : Southeast Asia, Western Europe, Middle East
Main Customers : Malaysia, Thailand, Vietnam, India
Total Annual Sales : Below US$10 Million
Growth Rate : 20 % - 30 %
Export : 40 % – 60 %
R&D Staff : 20 – 30 people
ALPHA ELECTRIC has been established in Malaysia since 1990, specializes in manufacturing and distribution of electrical appliances such as decorative ceiling fan, air cooler, shower-panel, kitchen appliances and H2O vacuum cleaner.

“ALPHA” has gained household popularity in Malaysia, Singapore, Thailand and Vietnam.

ALPHA been awarded the Products Excellence Award, Malaysia Excellence Award, Good Design Award, Malaysia Brand Name Award and Superbrands Award.

ALPHA also export to the nations of Asia, Australia, Canada, European Union, Middle East and USA.
<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>Multi-spray hand shower and LED light temperature sensor display (1st in Malaysia)</td>
</tr>
<tr>
<td>1995</td>
<td>Sensor touch micro computer auto temperature stabilizer (1st in Malaysia)</td>
</tr>
<tr>
<td>1997</td>
<td>Built-in booster pump, improved version of electronic earth leakage circuit breaker and sensor press fuzzy logic digital temperature setting (1st in Malaysia)</td>
</tr>
<tr>
<td>1999</td>
<td>Self-Setting shower temperature with four memory buttons</td>
</tr>
<tr>
<td>2000</td>
<td>Multi colour heater casing and chrome shower set (1st in Malaysia)</td>
</tr>
<tr>
<td>2001</td>
<td>Classic 5s shower set and hand shower (1st in Malaysia)</td>
</tr>
<tr>
<td>2002</td>
<td>Press button stop valve incorporated with water flow and filter</td>
</tr>
<tr>
<td>2003</td>
<td>Digital shower panel with built-in heater and booster pump (1st in Malaysia)</td>
</tr>
<tr>
<td>2006</td>
<td>The slimmest heater - S100E</td>
</tr>
<tr>
<td>2007</td>
<td>The slimmest heater with SilentJet - S300EP</td>
</tr>
</tbody>
</table>
Ministry of International Trade and Industry

- Industry Excellence Award 2001 – Alpha Turboflow LH-8000EP
- Malaysia Brand Name Award 2001
- Brand Excellence Award 2006
- Industries Excellence Awards 2008 - Special Awards: Innovative Product

Malaysia Good Design Council

- Good Design Mark 2002 – Alpha Turboflow LH-8000EP
- Good Design Mark 2002 – Classic 5s Shower Set
- Good Design Mark 2004 – V3, V5 & V7
- Good Design Mark 2006 – S100E
- Good Design Mark 2008 - Slim Model Series S300EP

The Superbrands Council

- Superbrands Malaysia 2003/2004
Basic Information
Business Type : Food & Beverage
Product/Services : Cake and Fusion Foods

Trade & Market
Main Markets : Singapore, Thailand, Indonesia, Philippines, China

Products
A homegrown company currently operates 35 cafes in Malaysia and 2 cafes in Singapore.

Secret Recipe produces and markets high quality cakes and other fusion foods.

The thing that sets Secret Recipe apart from its competitors is the ability to produce and maintain quality products at moderate prices.

A total of 23 award received from 2003 – 2007. The awards received are “Best Cheesecake Award 1998”, “Most Original Chocolate Award 1999”, “Best Cheesecake Award 1998” and “Best Lamb Stew Award 2001”.

SECRET RECIPE SDN BHD
ACHIEVEMENTS

- Best Casual Dining Restaurant of The Year 2007/2008
- TOP TEAM 50 Enterprise Award 2007
- Best Brand Food & Beverage Cafe 2007
- Best Sales Growth Award 2007
- Homegrown Franchise of the Year Award 2007
- Franchise of the Year 2007
- International Franchisor of the Year 2007
- Best Local Restaurant Chain 2006
- Best Brand Food & Beverage Cafes 2006-2007
- SMB Brand Building Award 2006
- Enterprise 50 Award 2006
- Golden Bull Award 2006
- Best Restaurant Award 2006 - Indonesia
- SMB Brand Building Award 2005
- Most Promising Franchisor of the Year Award 2005
- Malaysia Best Halal Restaurant of The Year 2005
- Most Promising Franchisor of The Year Award 2005-6
- Product Excellence Award 2005 ............
WHY IS INNOVATION IMPORTANT?

You need a competitive edge to play with the big dogs

Productivity & Economic Growth

  Creates Wealth

  Creates Jobs

  Creates Markets

  Higher Standard of Living

  Meet Significant Social Needs

Source: Sandy Ping - 4-P's Workshop
VALUE OF INNOVATION

Powerful Public Image

More Sustainable Growth

Increased Margins

More Effective and Efficient Marketing

Increased Employee Retention

Improved Efficiencies and Cost

Ability to Redefine the Existing Business & Enter New Markets

Source: Sandy Ping - 4-P’s Workshop
CHARACTERISTICS OF SMES IN THE INNOVATION ECONOMY

Market (and knowledge-intensive labor / human capital)  
Funding (Risk Capital)  

ENTREPRENEURS

- Able to identify and recognise a realisable business opportunity by anticipating market trends and demands
- Willing to take calculated risks for maximum returns
- Greater appreciation beyond basic science and technology

INNOVATION SMEs

- Market and customer focused
- High percentage of knowledge professionals
- Use of Technology and innovation for process and product improvement
- High risk but also high returns
- Able to act quickly in a fast-paced market

Source: BinaFikir Report – SMEs in the Innovation Economy
CRITICAL SUCCESS FACTORS FOR SMES IN MALAYSIA

Technology

Strengthening Enabling infrastructure

Funding

Building the capacity & capability of SMEs

Market

Enhancing access to financing

Source: BinaFikir Report – SMEs in the Innovation Economy
STAGES OF TECHNOLOGY DEVELOPMENT BY INNOVATION EFFORT

- **Frontier Innovation**: Create new technologies as leader or follower.

- **Technology Improvement & Monitoring**: Improve products, processes and skills to raise productivity and competitiveness, based on own R&D, licensing, interactions with other firms or institutions.

- **Significant Adaptation**: Change products and processes, plant layout, productivity management and quality systems, procurement methods and logistics to adapt technology to local or export-market needs. This is based on in-house experimentation and R&D as well as on search and interactions with other firms and institutions.

- **Basic Production**: Train workers in essential production and technical skills; reach plant design capacity and performance levels; configure products and processes; set up essential quality management systems; institute supervisory; procurement and inventory management systems; establish in-bound logistics.

Source: UNCTAD

Japan, Korea, Taiwan

Malaysia
Source: Technology Review, DTI, Red Hering, Business 2.0, OECD, MIT
DEVELOPING INNOVATION-LED AND TECHNOLOGY-DRIVEN SMES
NATIONAL SME INNOVATION FOCAL POINT

- Established on 15th December 2006

- A platform for entrepreneurs, research institutes, financiers and relevant Government agencies to meet and discuss on initiatives to develop innovation-driven SMEs.

- exchange of information on results of research and development (R&D) and design and development (D&D) activities

- facilitate commercialisation of R&D findings by SMEs; and

- collate and disseminate information on current trends of available production and process technologies as well as best practices;
National SME Innovation Focal Point

SMIDEC

Research Institutions/Universities

Banks/Financial Institutions

SMEs
Established under National Innovation Council, chaired by Chief Secretary to the Government,

Six (6) Sub-Committees were established to implement the strategic thrusts under the National Innovation Action Plan.
INITIATIVES TO DEVELOP INNOVATION-LED TECHNOLOGY-DRIVEN SMES

NATIONAL SME INNOVATION FOCAL POINT
UNDER IMP3

STRATEGIC THRUST 4 – SME / TECHNOPRENEUR
UNDER JTPIN

INNOVATION FOR SMEs
National Innovation Action Plan

STRATEGIC THRUST 4

Shaping National Innovation Led Economy by Developing Market-Driven and Technology-Driven Innovation for Wealth Creation and Societal Well Being

- Provide fiscal incentives and encourage greater participation in high risk venture
- Launch “Fast-Track Programme” for I-SME
- Establish Angel Network
- Innovation-Enhancement Points

Source: MOSTI
KEY INITIATIVES...

MARKET
- BUSINESS MATCHING / MARKET ACCESS
- SHOWCASE
- TRADE MISSIONS
- I-SME

TECHNOLOGY
- TECHNOPRENEURSHIP
- SME-UNIVERSITY INTERNSHIP PROGRAMME
- I-SME
- INNOVATION DATABASE
- TECHMART
- RESEARCH-ER PROFILE
- TECHNOLOGY ROADMAP

FUNDING
- I-SME
- VENTURE CAPITALIST
- GRANTS

INNOVATION FOR SMEs
SMIDEX 2008 – INNOVATION FOR BUSINESS
PAVILION
SMIDEX 2008 – INNOVATION FOR BUSINESS PAVILION

TO DATE, 42 TECHNOLOGIES MATCHED UNDER SMIDEX 2007 - 2008
SME – UNIVERSITY INTERNSHIP PROGRAMME

CONSULTING BASED LEARNING FOR ASEAN SMEs (COBLAS)

Benefits to SMEs:
- exposure to the latest development of business practices and applications of technology; and
- improved ways of doing business.

Benefits to students:
- industry exposure and practical applications of their studies as well as enhance self confidence in doing business; and
- inculcate the spirit of entrepreneurship.

Local SMEs

University Education

Local & International Networking

Students

Linking SMEs to Universities to upgrade the capability of SMEs
Establishment of Database on Research Findings, namely the Technology Database in the SMIDEC portal in collaboration with MASTIC, MOSTI.

- 270 technologies are available for commercialisation by SMEs in all sectors; and

Establishment of database of expert profiles through SMIDEC’s website, collaboration with MASTIC, MOSTI.

- A total 18,413 researcher’s profile is currently available in the database.
TECHNOLOGY DATABASE
RESEARCHERS PROFILE DATABASE
Completed 3 Roadmaps

- Electrical & Electronics – Penang Skills Development Centre
- ICT - MIMOS
- Biotechnology Industry – Biotech Corp

Work In Progress

- Automotive Sector - PROTON
- Rubber Products – Malaysian Rubber Board
- Wood & Wood Based Products - FRIM
TECHNOLOGY ROADMAP – E&E

Value Roadmap – The Penang Story

Quality and Automation

- Low value added exports
- Textile/garment
- Labor intensive
- Electronic component assembly
- Test
- Machine shop service
- General maintenance
- Trade

R&D Sub-Con Support Centers

- Semicon mfg
- Consumer electronics
- Automation
- TQC
- Tool and die
- Machine integration
- Plastic molding
- Custom service
- Improvement projects

Global Competition

- Investment in high tech machine shops
- Drive components production
- Test auto-handlers
- PCB assembly automation
- Mfg sub-con
- General mfg machinery

MNC

- Basic industries
- Agriculture

SMI

- Business mgmt
- Outsourcing
- Service center
- R&D
- Software
- Global hub
- Alternative sites

- Basic software
- Design companies
- Contract mfg

By Penang Skill Development Corporation (PSDC)
TECHNOLOGY ROADMAP – R&D ON ICT

In summary, this Roadmap will serve as a methodology and framework providing overall directions to all ICT stakeholders whilst complementing other national plans.

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<td>2nd OPP</td>
<td>3rd OPP</td>
<td>Knowledge-based Economy Master Plan</td>
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<td>6th MP</td>
<td>7th MP</td>
<td>8th MP</td>
<td>9th MP</td>
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<tr>
<td>CAD/CAM/CAE</td>
<td>E-Economy</td>
<td>E-Government</td>
<td>Digital Content Development</td>
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<tr>
<td>VLSIDesign</td>
<td>E-Public Services</td>
<td>Multipurpose Card</td>
<td>E-Commerce</td>
<td></td>
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<tr>
<td>Printed Circuit Board</td>
<td>E-Community</td>
<td>Smart School</td>
<td>Shared Services &amp; Outsourcing</td>
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<td>Network – PALM OILS, SIRIMLINK, AGROLINK, CSL, Jaringan Pendidikan</td>
<td>E-Learning</td>
<td>Telehealth</td>
<td>Bioinformatics</td>
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<td>E-Business</td>
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<td>IMP2</td>
<td>IMP3 &amp; NBP</td>
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<td>Nat. Education Blueprint</td>
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By MIMOS
TECHNOLOGY ROADMAP – BIOTECHNOLOGY

PHASE I
(2005-2010)
Capacity Building

- Establishment of advisory and implementation Councils
- Establishment of Biotechnology Corporation of Malaysia
- Incentives
- Capacity Building in R&D
- Industrial Technology Development
- Develop Agricultural, Healthcare and Industrial Biotechnologies
- Develop Legal and IP Framework
- Business Development through Accelerator Programmes
- Bioinformatics
- Skills Development
- Regional Biotechnology Hubs
- Develop BioNexus Malaysia as a brand
- Initial job and industry creation

PHASE II
(2011-2015)
Science to Business

- Develop expertise in drug discovery and development based on biodiversity and natural resources
- New Products Development
- Technology Acquisition
- Promote FDI participation
- Intensify Spin-off Companies
- Strengthen Local and Global Brands
- Develop Capability in Technology Licensing
- Job Creation

PHASE III
(2016-2020)
Global Business

- Consolidate Strengths and Capabilities in Technology Development
- Further Develop Expertise and Strength in Drug Discovery and Development
- Leading Edge Technology Business
- Maintain Leadership in Innovation and Technology Licensing
- Create greater value through Global Malaysian Companies
- Re-branding of BioMalaysia as Global Hub
INNOVATION SMES (I-SMES) - CONCEPT

PROPOSED DEFINITIONS OF AN INNOVATION SME

Resource-led Economy

SMEs
- These are firms who meet the official definitions of ‘SME’ as approved by the National SME Development Council (NSDC)
- But does not meet the requirements defining K-SMEs or I-SMEs
- This group of SMEs would consist mainly of micro-enterprises in the services, agriculture and manufacturing sector

K-SMEs
- These are SMEs who meet the official definitions of ‘SME’ as approved by the NSDC, plus the following:
  - More than 20% of staff in that SME are knowledge workers (where they possess at least tertiary/professional qualification)
  - Training & learning on technical skills is provided by the SME to its staff
  - There is direct ICT and technology usage for process OR product improvement in the SME
  - There is evidence of innovation and R&D for process OR product improvement in the SME

Innovation-led Economy

Innovation SMEs
- These are K-SMEs who meet the following:
  - More than 50% of full-time operational (non-support) staff in that SME are knowledge workers (where they possess at least tertiary/professional qualification)
  - Training & learning on technical skills is provided by the K-SME to its staff
  - There is direct technology usage for process AND product improvement in the K-SME
  - There is evidence of innovation and R&D for process AND product improvement resulting in IP creation in the K-SME
  - The core business of the K-SME involves usage and enhancement of S&T (high tech sectors as identified by MIGHT)
  - The output of the K-SME is a manifestation of proprietary innovation and application of proprietary technology

Examples
- Retailers
- Restaurants
- Wholesalers
- Textile manufacturers
- F&B manufacturers
- Farmers
- Consultancy firms
- Manufacturers who adopt / adapt technology
  - E.g. sectors as identified by MIGHT, but non-exhaustive
    - Biotechnology
    - Nanotechnology
    - Photonics
    - ICT
    - Renewable Energy
    - Aerospace
    - Advanced Materials

These definitions are still work-in-progress and require further discussion and feedback with stakeholders.
FAST TRACK PROGRAMME (FTP)

In order to accelerate the growth of Innovation-led SMEs, a Fast-Track Programme for Innovation SMEs is proposed. The Fast Track programme would entail priority access to:

- Funding for technology acquisition (e.g. TechBuy) to shorten time-to-market
- Fast-track approvals (e.g. IP registration)
- Dedicated assistance in prototyping
- GLC partnership for reference sites support
- Networking platforms (e.g. special forums with global VCs)

Other proposed elements of the Fast-Track Programme for I-SMEs include:

- Limited number of participants in the Programme, where SMEs have to compete for a space, to encourage competitive element
- Limited time-frame for participation in the Programme to ensure constant review/progress is achieved
FAST TRACK PROGRAMME FOR INNOVATION SMEs

Proposals submitted by SMEs are evaluated to assess their suitability based on the following criteria:

a. Within I–SME definition
b. Innovative concept
c. Technology acquisition
d. Imminent market opportunity
e. Feasibility

Participation is based on competitive bidding to qualify. For unsuccessful SMEs, feedback should be provided on why their proposals have failed.

1. Business Proposal
   I–SMEs to submit their business or project proposal

2. Evaluation process

3. 6–months OR 12–months Fast–Track Programme
   Limited number of successful SMEs participate in the Programme to encourage competitive element.
   Limited time–frame for Programme to ensure constant review / progress is achieved

4. Review & Report
   After the completion of the Programme, SMEs are reviewed on their progress and results. For SMEs who meet certain standards with their results would receive continuous progress review.

Note: I–SME = Innovation–led SME

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INNOVATION – ENHANCEMENT POINT (IEP) - CONCEPT

3 LINKS BETWEEN SMEs AND RESEARCHERS

It is imperative that strong links between researchers / scientists and businesses be established. This would be key in promoting the iterative cycle between supply-side and demand-side towards commercially viable and successful output from R&D.

How

- Government to provide grants which would be given to qualified I-SMEs to conduct R&D for product / services enhancement.
  - This grant, which can be issued in the form of Innovation–Enhancement Points (‘IEP’) that are available in agreed denominations with validity period (e.g. up to two years)
  - This IEP can be redeemed for services of approved researchers at selected research institutions / centres nationwide
  - No new funds required as existing technology fund can be converted for this scheme

Who

MDeC / Biotech Corp / MIGHT, National Innovation Foundation, et al, in conjunction with research institutions / centres (e.g. Research Universities, MIMOS, MARDI)

These SMEs must already know what type of R&D they would like to pursue

SME Checklist

RI Checklist

List of RIs eligible for Scheme

Benefits

1. Encourage SMEs to innovate and conduct R&D by providing funds
2. Introduce SMEs to research institutions and bridge knowledge gap
3. Ensure research institutions conduct R&D that are market-oriented and commercializable

Invitation to SMEs to apply for Innovation-Enhancement Points

Qualification Checklist

IEP disbursed

SME redeems services at approved RIs

Reimbursement of IEP by RIs

Provision of research to SMEs upon presenting IEP

Abbreviation:

RI – Research Institutions
I-SME – Innovation-led SME

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Innovation Vouchers
- Is a credit note which SMEs can commission a research question from public research institution
- Maximum value EUR 7,500 and cannot be cashed in

Objectives:
- Introduce SMEs to public research institutes
- [market-oriented incentives for research institutes]

Characteristics
- Credit note, value max EUR 7,500 transferable
- Application-oriented research question – use knowledge to improve product & processes
- Placed with a defined group of institutes
- SMEs only
- Valid for 7 month
- No restriction on e.g level of question or technology
- 100 vouchers available
NETWORKING PLATFORM

INVESTORS

RESEARCHERS

SMEs

GOVERNMENTS
FINANCIAL ASSISTANCE PROGRAMMES

Matching Grant
- 50% of the approved project cost is borne by the Government and the remainder by the applicant

Soft Loan
- Low interest rate
- Longer repayment period
Matching Grant for Business Start-Up
Matching Grant for Product and Process Improvement
Matching Grant for Certification and Quality Management Systems
Matching Grant for Market Development
Matching Grant for Development and Promotion of Halal Products
Matching Grant for Enhancing Product Packaging
Grant for RosettaNet Standard Implementation
**Soft Loan Schemes**

- **Soft Loan for SMEs (SLSME)**
  - Interest Rate: 2%
  - Max Loan: RM3 million
  - Payment Period: 15 years

- **Soft Loan for Factory Relocation (SLFR)**
  - Interest Rate: 2%
  - Max Loan: RM3 million
  - Payment Period: 15 years

- **Soft Loan for ICT Adoption (SLICT)**
  - Interest Rate: 2%
  - Max Loan: RM500,000
  - Payment Period: 5 ½ years
CRITICAL SUCCESS FACTORS FOR SMES IN MALAYSIA

TECHNOLOGY

- Technology Databases
- Technology Roadmaps
- Product & Process Improvement
- Training

MARKET

- SMIDEX Showcase
- Training
- Trade Missions

FUNDING

- Incentives
- Fast Track Programme
- I-SME

Source: BinaFikir Report – SMEs in the Innovation Economy
We believe knowledge and innovation are symbiotic
THANK YOU