

For discussion
on 10 May 2004

Legislative Council Panel on Commerce and Industry

DesignSmart Initiative

INTRODUCTION

This paper seeks Members' support for the setting up of a \$250 million DesignSmart Initiative (the "Initiative") to promote innovation and design.

BACKGROUND

2. Innovation and design play an important part in adding value to products and services. It has been the Government's policy to promote design and innovation. Our objectives are to enhance industry understanding and application of design and innovation, and to promote design as a value added activity and integrate it into mainstream business and industrial processes. Part and parcel of our focus is to help our industries move up the value chain by switching the production mode from original equipment manufacturing to original design manufacturing (ODM) and thence original brand manufacturing.

3. The Government has been promoting design through various means, including but not limited to the following:

- The Government has coordinated support and resources for the setting up of the Hong Kong Design Centre (HKDC), which is a multi-disciplinary centre to promote design as a value-added activity, to enhance design standards, to foster design-related education, and to raise the profile of Hong Kong as an innovation and creative hub. The Government provided \$10 million in 2001 to support the initial operating costs and made available the heritage building at 28 Kennedy Road for HKDC.
- The Government has made available more than \$150 million from the Innovation and Technology Fund and the former Industrial Support Fund to finance over 60 projects to facilitate the development of design capability of industry.

- The Government has formed the Steering Group on the Promotion of Innovation and Design with industrial companies with outstanding record of design excellence and design professionals to spearhead the promotion of innovation and design in industry.
- To promote and honour excellence in industrial design, the Government has been providing support to organize the annual “Hong Kong Awards for Industry: Consumer Product Design” and “Hong Kong Awards for Industry: Machinery Design”.
- To facilitate ODM development of small and medium enterprises (SMEs), the Government has supported the establishment of an Integrated Circuit Design/Development Support Centre in the Science Park, a Digital Media Centre and a Wireless Solutions Development Centre in the Cyberport.
- Together with HKDC and other promotional agencies, the Government has made the “Business of Design Week” (BODW) held in September 2002 a premier and highly visible design event in Asia. The second BODW was successfully held in December 2003.
- A robust intellectual property rights regime is essential for our design capability to flourish. The Government has maintained an intellectual property protection regime which is in full compliance with the international standards and norms. The Intellectual Property Department also provides design registration services in Hong Kong.

4. According to a Hong Kong Trade Development Council study on “Creative Industries in Hong Kong” in 2002, Hong Kong is recognized as a regional design centre. Hong Kong designers have established a rich portfolio of excellent job references. Some 70% of Hong Kong design companies have exported their services.

5. The Government considers that Hong Kong may further capitalize on the potential for further development of design in at least two ways:

- (a) Hong Kong design has considerable potential for export to other parts of Asia and, particularly the Mainland, in the wake of China’s accession to the WTO and the recent implementation of CEPA; and

- (b) the wider application of design by the 60,000-strong Hong Kong-related enterprises in the Pearl River Delta region will increase the value and competitiveness of their products and services.

6. In spite of the above support and efforts, the Government considers it necessary to focus on the following two areas in order to better harness the economic potentials of design. First, the Government sees it important to better connect design with the industry so that business enterprises could better integrate design and branding into corporate product development process and business strategy and make design and branding inherent value-adding elements to improve competitiveness. Second, the current scale, coordination and synergy among different design-related institutions can be further strengthened to facilitate better dynamic integration and focus. The Government also notes that other economies in the region such as Korea, Singapore and Taiwan have launched strategies to promote design. Hong Kong needs a major and sustained initiative to promote innovation and design, including branding, and their integration with business and industry.

7. Against the above background, the Financial Secretary announced in his Budget Speech on 10 March 2004 that the Government planned to launch the Initiative with the creation of a \$250 million fund. The purpose was to encourage more product design activities in Hong Kong and further promote Hong Kong brand names and the Initiative seeks to strengthen our support for design and innovation.

DESIGNSMART INITIATIVE

Scope of Design

8. A “Baseline Study on Hong Kong’s Creative Industries”¹ has pointed out that the scope of design encompasses graphic, fashion, interior and product design. The last is closely integrated with the process of manufacturing production which may include footwear, furniture, garment and textiles, toys, watches, electronic appliances and other consumables². The Government considers that design is a professional business activity (as opposed

¹ Paragraph 2.7, “Baseline Study on Hong Kong’s Creative Industries” (for the Central Policy Unit of the Hong Kong Special Administrative Region Government), Centre of Cultural Policy Research, The University of Hong Kong (September 2003).

² Source : ditto.

to a form of art) that can add value and increase competitiveness of products or services by interfacing with aesthetics, science and technology. The Government also considers that design is a process involving the exploitation and transformation of creativity and innovation into the development of tradable products and services. It is multi-disciplinary, and may embrace the sciences of materials technology, engineering, ergonomics, manufacturing and aesthetics.

9. Given the diversity of design disciplines and the multi-disciplinary nature of design processes, the Government considers that the scope of the proposed public policy efforts in promoting the development of innovation and design (see “DesignSmart Initiative” in paragraph 10 below) should not be industry-specific but would aim at supporting and promoting design and related activities that would offer businesses the ability to differentiate themselves from their competitors, add value to their products or services, and increase their economic competitiveness.

DesignSmart Initiative

10. The Initiative will include the following major elements:

- (a) launching a **Design Support Programme**, which will finance projects in design research, branding research, design/business collaborations, design professional continuing education as well as promoting and honouring design excellence and branding. The Government plans to allocate about two-thirds of the \$250 million funds for this part of the Initiative; and
- (b) developing an “**Innovation and Design Centre**” for accommodating a cluster of high value-added design activities among design professionals and interns, and design companies, where creative ideas with functionality will be stimulated, nurtured, researched, promoted, commercialised and branded. Incubation programme for design ventures is planned to be organized. The Government will make use of the Tech Centre in Kowloon Tong, currently vested with the Hong Kong Science and Technology Parks Corporation³ (HKSTPC), for setting up the Innovation and Design Centre.

³ HKSTPC is a statutory organisation providing one-stop infrastructure services to cater for the needs of technology-based companies at various stages, ranging from nurturing technology start-ups through incubation programme, providing premises and services in the Science Park for applied research and development activities and providing land in industrial estates for production.

(I) Design Support Programme

11. This part of the Initiative will fund the following four broad categories of activities:

- **design research and branding research** : This category will cover research projects undertaken by universities, industry support organizations, trade associations, etc., in different aspects of design and branding (such as design/branding methodology, ergonomics, user requirements research, best practice studies, etc.). The research results are intended to be non-exclusive so that they provide a platform for attaining greater awareness of and for better capturing the economic opportunities afforded by design. Successful project applicants are expected to secure sponsorship of at least 10% of the approved project cost to demonstrate industry support.
- **design-business collaboration activities** : This category of projects aims to stimulate the interests and investment of SMEs⁴ in utilizing design as a competitive tool through leveraging the knowledge and resources of the design industry. Project funding will be provided to the applicants who will be the design companies on a matching basis. This means that the applicant design company and the SME in the project are expected to contribute in aggregate at least 50% of the approved project cost. Maximum funding support for each approved project is \$100,000. Through this part of the Initiative, the Government wishes to see design activity be transformed into tradable deliverables, be it product or service, that manifest exploitation and deployment of intellectual property, which may comprise patent, copyright, trademark or industrial design.
- **professional continuing education** : This category will cater for professional continuing training that contributes to design/branding capability building and nurturing of talents as well as appreciation and understanding of design by industry. Given that there are in existence other government funding schemes which may also be utilized for training in

⁴ SMEs refer to manufacturing business which employs fewer than 100 persons in Hong Kong; or a non-manufacturing business which employs fewer than 50 persons in Hong Kong.

design-related areas⁵, the Government considers it necessary to avoid duplication of resources and to maximize impact to the greatest possible extent. The Initiative will thus mainly fund the development of new design training courses by local organisations or in collaboration with overseas training organisations so as to enrich training opportunities for our designers and the industry. The Initiative may also be used to fund programme that may provide widened horizon, external exposure and nourishment in design. The Initiative will also help launch a **DesignStar Scheme**, the purpose of which is to select, through awards, competition or any other form to be decided, say, two best designers each year to be sent to reputable organizations for maximum one-year training course or work attachment so as to broaden the horizon of our aspiring designers. The related expenses under the DesignStar Scheme will be set at \$1 million maximum each year.

- **general support activities** : This category will cater for projects that contribute to fostering culture and excellence in design and branding in Hong Kong, such as conferences, exhibitions, seminars, etc. Eligible applicants include universities, industry support organizations, trade associations, etc. Successful project applicants are expected to find sponsorship of at least 10% of the approved project cost to demonstrate industry support. In this regard, it is worthwhile to mention that BODW (referred to in paragraph 3 above) organized by HKDC has positioned itself as a respectable premier regional event in design with formidable publicity, profile, visibility and prestige. This event represents a solid foundation on which Hong Kong may ride to further promote and celebrate design. The Government will use some of the funds under the Initiative to support this activity in future through supporting HKDC's expanded operations (see paragraph 15 below).

12. For the above funding programmes, the Government proposes that the assessment criteria should have regard to a number of factors related to the potential contribution of the project to improve the competitiveness of the design industry and of the industrial/business sectors as a whole, the potential to transform the design activity into some tradable deliverables that manifest

⁵ Examples are New Technology Training Scheme, Continuing Education Fund and SME Training Fund.

exploitation and deployment of intellectual property, project team capability and its commitment and the like. A list of the criteria is at Annex A. The Government also proposes that any individual project requiring more than \$10 million funding from the Initiative will need to be approved by the Legislative Council Finance Committee.

13. The general modus operandi of the Design Support Programme is outlined at Annex B.

(II) Development of an “Innovation and Design Centre” as a one-stop centre for design and related activities

14. HKDC is an infrastructure organization established in 2001 to further the development of design. It was formed with the concerted efforts of four leading design professional bodies⁶ in Hong Kong with a view to promote the design industry and its competitiveness in the region as a service industry. The detailed objectives of HKDC are at Annex C.

15. Currently, HKDC operates from its premises at 28 Kennedy Road. In order to strengthen the infrastructural support services for design, the Government intends to develop a one-stop centre provisionally called “Innovation and Design Centre” to provide the following services which cannot be offered at 28 Kennedy Road:

- (a) incubation services for design ventures⁷;
- (b) rental space at commercial rates for design-related companies;
- (c) professional education and training, exhibition and seminars in design; and
- (d) networking among design professionals and user industries as HKSTPC is a platform for technology-based companies and they may utilize design services available in the centre. The design companies in the centre may also provide value-adding services to technology-based companies, thus achieving greater synergy and integration of design into the mainstream

⁶ The four associations are the Hong Kong Designers Association; Chartered Society of Designers; Hong Kong Interior Design Association Hong Kong and Hong Kong Fashion Designers Association.

⁷ Incubation services refer to the provision of support services, such as management training, customized marketing services, business matching, business advisory services, networking services, professional services such as legal and financial advice as well as provision of office accommodation at affordable rent to start-up companies in their critical, initial stages of development for operation and growth.

industrial processes.

The Government will use the Tech Centre in Kowloon Tong currently vested with HKSTPC for the above purposes.

16. Through collaboration, HKDC may help HKSTPC in the provision of professional education in design and branding, showcasing and exhibiting good design, maintaining design library; attracting designing ventures and design incubatees; and connecting design companies to industry. HKSTPC has tremendous experience and expertise in running incubation programmes and may provide other necessary services and facilities in the Tech Centre. Under such scenario, HKDC and HKSTPC may benefit from each other by HKDC expanding its operation from its existing premises to part of the Tech Centre for the purpose of creating synergy.

17. Necessary resources for developing the one-stop centre under the collaboration of HKDC's expanded operations and HKSTPC would be provided to HKDC and HKSTPC under the Initiative.

ADMINISTRATION

18. The Innovation and Technology Commission (ITC) is tasked to take forward the Initiative. The Design Support Programme under the Initiative will be administered by ITC. The enhancement of infrastructure (including incubation) will be operated by HKDC and HKSTPC. They will enter into a memorandum of understanding (MOU) to set out the detailed terms of co-operation. The necessary funds for implementation of the Initiative will be disbursed to HKDC and HKSTPC through ITC, subject to the signing of a MOU to the satisfaction of the ITC. The funds for HKDC are intended to be disbursed on a half-yearly basis in advance based on HKDC's estimated budget. Funds for HKSTPC are intended to be disbursed according to the pace with which the incubation programme for design is ramped up according to its estimate. To ensure that the funding to be made to HKDC through the Initiative will be fully and properly applied, HKDC will be required to enter into a memorandum of administrative arrangements with ITC to govern the use of the fund before the release of the fund. The Government does not intend to provide recurrent subvention to HKDC upon depletion of the fund. In respect of any funds to be disbursed to HKSTPC, the control mechanism will be through the existing oversight system over HKSTPC⁸.

⁸ HKSTPC is governed by the HKSTPC Ordinance (Cap. 565). It has a Board of Directors on which Government has a representative. The HKSTPC is also subject to controls provided for in the HKSTPC Ordinance. For instance, the annual estimates and programme of the HKSTPC is required to be

FINANCIAL AND STAFFING IMPLICATIONS

19. The setting up of the Initiative will require a non-recurrent allocation of \$250 million from the General Revenue Account in the form of a capital account commitment.

20. The staff cost needed for operating the Initiative will be absorbed within the prevailing provision to ITC. Administrative expenses (other than staff cost) required for the smooth implementation of the Initiative, such as e-application system, will also be borne by the Initiative.

21. The Government estimates that the breakdown of use of the \$250 million, if approved, will be as follows⁹:

Expenses	\$'000
(a) Design Support Programme (for design and branding research; design/business collaboration; design professional continuing education and DesignStar Scheme; and general support events for fostering culture and excellence in design and branding)	160,000
(b) Expanded operation of HKDC and the organization of BODW	60,000
(c) Incubation programme	<u>30,000</u>
Total	250,000

PUBLIC CONSULTATION

22. ITC issued a paper for a one-month public consultation on 30 March 2004. As at 30 April 2004, the Commission received a total of 14 written submissions and also discussed with 16 major design associations, industry and trade organizations as well as design education institutions about the Initiative. The mainstream view of the respondents is that they welcomed

considered by the Financial Secretary. The annual report and audited accounts of the HKSTPC are also required to be laid on the table of the Legislative Council.

⁹ The breakdown does not include administrative expenses which may be required for the smooth implementation of the Initiative and be borne by the Initiative (paragraph 18 above) because the amount concerned is estimated to be comparatively small.

the Initiative. They are generally in support of the purpose, objectives and structure of the proposal above. Their comments have already been taken into account in the above proposal, as appropriate.

WAY FORWARD

23. Subject to Members' views on the Initiative, we will seek the approval of the Finance Committee within the current legislative session to create one non-recurrent item under Head 155 – Innovation and Technology Commission. Subject to funding approval by the Finance Committee within the current legislative session, the Initiative will be rolled out within 2004.

Commerce, Industry and Technology Bureau
May 2004

**Major Factors to be taken into account in the
Assessment criteria of the Design Support Programme**

1. The potential of the project to contribute to improving the competitiveness of the design industry and of the industrial/business sectors as a whole.
2. The potential of the project to broaden the design or branding knowledge base of the economy.
3. The potential of the project to facilitate general upgrading and future development of design or branding in one or more sectors in industry.
4. For product/service design or branding projects, the potential for commercialization and the likelihood of finding pathways to market.
5. The potential to transform design activity into tradable deliverables, be it product or service, that manifest exploitation and deployment of intellectual property, which may comprise patent, copyright, trademark or industrial design.
6. The commitment of the company, whether as an applicant, private sector sponsor or partner, as demonstration of the industrial or commercial relevance of the project.
7. The capability of the project team, whether the applicant, the sponsor or partner, as demonstration of having necessary cross-sectoral, multi-disciplinary expertise and experience in bringing together design and industry/business in a dynamically integrative manner.
8. The planning and organization of the project, including the schedule of implementation, the milestones, etc.

9. The design and project management capability of the project team, i.e. the applicant's experience, qualifications, track record, and the resources available for the project.
10. Whether the proposed budget is reasonable and realistic.
11. Whether the project should be funded by other sources.
12. Whether the project is duplicating or likely to duplicate the work carried out or to be carried out by other entities.
13. Whether there would be any recurrent cost implications.
14. Any other factors commensurate with the objective of the Design Support Programme which the funding agency may consider as necessary and appropriate for any particular round of solicitation.

General Modus Operandi of the Design Support Programme

1. Where applications are made on the basis of individuals, the individuals concerned need to be Hong Kong residents¹⁰.
2. Where applications are made on the basis of legal entities, the companies concerned should be companies incorporated in Hong Kong under the Companies Ordinance (Cap 32) and have substantial connection to Hong Kong or a body corporate incorporated in Hong Kong under other ordinances of the Hong Kong Special Administrative Region.
3. Applications under the Programme will be open for no less than two times a year. ITC may also from time to time issue theme-specific topics to solicit applications.
4. Any individual project requiring more than \$10 million funding from the Initiative will need to be approved by the Legislative Council Finance Committee.
5. Any intellectual property rights derived from the project will be owned by the project applicants (or be co-owned by the project applicants and their sponsors and partners as agreed among themselves). If necessary (such as when public interests are involved or in order to fulfill the objective of providing support to the design community and the industry / business), the project applicants will be required to grant unconditionally to Government a non-exclusive perpetual royalty-free licence to exploit or dispose of the relevant intellectual property rights.
6. Successful applicants will be required to undertake to comply with the detailed conditions for the grant. They will also be required to submit a mid-term progress report and a final report with audited accounts after

¹⁰ “Hong Kong residents” refers to persons who possess Hong Kong Identity Cards in accordance with Article 24 of the Basic Law of the Hong Kong Special Administrative Region. They do not necessarily be Hong Kong permanent residents.

the project is completed, if necessary.

7. A pool of assessors comprising officials, professionals, industrialists, businessmen, designers, academics will be set up. A panel of assessors drawn from the pool will help, among other things, assess applications. If necessary, comments and advice will be sought from outside experts on specific applications. If necessary and appropriate, applications of proprietary nature may be vetted internally by ITC without assessors.
8. For design/business collaboration projects, we will consider setting a ceiling for the maximum amount of support which a particular company/individual (either in terms cumulative funding approved or number of projects approved) may enjoy under the funding programme.
9. Project duration is expected to be less than one year in general except otherwise stated (e.g. design/branding research which may take longer time).

Objectives of the Hong Kong Design Centre

- promote design as a value added activity and integrate it into mainstream business processes;
- establish the Centre as a focal point for design related activities in Hong Kong;
- foster the best design related education in the region;
- raise the design standard among the local design community;
- promote awareness of the value of design in the local community; and
- raise the profile of Hong Kong as an innovative and creative hub in Asia.