

Panel on Commerce and Industry

Extract from minutes of the meeting held on 17 July 2007

* * * *

VII. Improvements to the Small Entrepreneur Research Assistance Programme and the University-Industry Collaboration Programme under the Innovation and Technology Fund

(LC Paper No. CB(1)2088/06-07(05) -- Paper provided by the Administration)

Briefing by the Administration

51. At the invitation of the Deputy Chairman, the Commissioner for Innovation and Technology (C(IT)) briefed members on the Administration's proposals to improve the Small Entrepreneur Research Assistance Programme (SERAP) and the University-Industry Collaboration Programme (UICP) under the Innovation and Technology Fund (ITF) to provide further impetus to the development of applied scientific research which were the initiatives announced by the Financial Secretary in his 2007 Budget. In gist, the proposals were as follows:

(a) Small Entrepreneur Research Assistance Programme (SERAP)

At present, local companies with less than 20 employees were eligible to apply for a maximum funding up to \$2 million on a dollar-for-dollar matching basis under SERAP. The funds would be provided in two phases - at a maximum limit of \$0.4 million for a trial period of six months or less in Phase I, and \$1.6 million for a period of no longer than 18 months in Phase II. The disbursement of the Phase II funding would be subject to deliverables of Phase I of the respective projects, and a separate application had to be submitted again for Phase II after completion of Phase I. SERAP funding would be fully recouped from the recipient companies, for an indefinite period, if the SERAP project was commercially successful, i.e. the project was able to attract follow-on investment by other investors or generate revenue.

Action

The Administration proposed to relax the eligibility criterion of company size to such an extent that companies with less than 100 employees could apply for SERAP funding. By so doing, SERAP would cover about 99% of the total number of establishments in Hong Kong and hence more companies could benefit from the Programme. With respect to funding, while the matching basis up to a maximum of \$2 million would remain, the Administration proposed to streamline the application process and minimize the documentations required for applying the SERAP funding by adopting a single-phase system. To ensure the prudent use of public funds, there would be well-defined milestones, and the required funding at different stages during the project period would be agreed at the outset of the project. The Administration also proposed to simplify the recoupment of SERAP funding from project-based to company-based and to introduce a six-year cut-off period for the recoupment.

(b) University-Industry Collaboration Programme (UICP)

The current mode of operation of UICP was to provide grants for a private company incorporated in Hong Kong and with substantive connections with Hong Kong to collaborate with local universities to undertake commercial research and development (R&D) on a dollar-for-dollar matching basis. To encourage competition and industry stakeholders to engage in R&D, the Administration proposed to relax the geographical requirement by allowing a non-local university to undertake the major part or the whole of the R&D work of a project as well as allowing a major part or the whole of the R&D work of a project to be conducted outside Hong Kong.

Discussion

Proposed recoupment arrangements of SERAP funding

52. On the Administration's proposal to recoup SERAP funding on company basis for a period of six year, the Deputy Chairman doubted if the cut-off period of six years would provide opportunities for irresponsible recipient companies to evade from their liability of repaying the public coffers even though the SERAP projects were commercially successful. To avoid mixing up with the profit or loss of other activities of the recipient companies, he was of the view that the recoupment of SERAP funding should not be made on company basis but should be strictly in accordance to the commercial viability or otherwise of the SERAP projects.

Action

53. In reply, C(IT) explained that during the project span, recipient companies were required to maintain separate accounts of the SERAP projects which would be duly audited upon completion of the projects. However, these accounts would normally be discontinued afterwards. As the follow-on investment and revenue generated by SERAP funding would subsequently be integrated into other activities of the company, the Administration therefore proposed to recoup SERAP funding on a company basis.

Admin

54. The Deputy Chairman remained concerned that the proposed recoupmment method was not only a departure from the existing practice but also an in-principle change to the policy. As such, he requested the Administration to provide an information paper to the Panel after the meeting detailing the objective of SERAP, the rationale for introducing a six-year cut-off period for the recoupmment of SERAP funding, etc.

(*Post-meeting note:* The Administration's response was circulated to members vide LC Paper No. CB(1)5/07-08 dated 8 October 2007.)

Proposed relaxation of geographical requirements of UICP

55. Mr SIN Chung-kai objected to the Administration's proposal as to relax geographic requirements of UICP. He pointed that while Hong Kong adopted a low threshold for foreign capital to set up registered companies in Hong Kong, the proposed relaxation would open up opportunities for foreign-capital-owned-local-companies to apply for public funding under UICP to engage non-local universities to undertake the R&D work. He was concerned that such an arrangement would lead to abuse of the Programme and defeat the purpose of the Programme, i.e. to encourage a stronger culture of R&D in Hong Kong and to accumulate human capital for the territory through the process. He opined that while local universities should remain to be the major stakeholders of UICP projects, consideration could be given to relaxing the existing arrangement such that local universities could collaborate with non-local universities by engaging the latter to undertake part of the R&D work, say about 30%, of UICP projects outside Hong Kong.

56. In reply, C(IT) explained that while local universities could apply for funding to conduct applied research from the University Grants Committee, the Research Grants Council as well as through other funding schemes under the ITF, the aim of UICP was to fund private companies incorporated in Hong Kong to conduct commercial R&D. Under the proposed relaxation, private companies could solicit non-local resources such as skills, expertise and equipments, etc., required for taking forward their R&D projects which were not available locally. He stressed that to ensure the prudent use of public money, a set of well-defined assessment criteria had been adopted to guard against abuses of the Programme. All UICP applications were subject to stringent assessment which included whether the proponent had maintained substantial operation in Hong Kong

Action

instead of just being a shell company, the technical and project management capability of the project team, job opportunities to be created under the proposed project, the potential for commercialization, the likely pathways to the market, and the potential of the project to contribute to innovation and technology upgrading of Hong Kong's economy, etc.

57. Mr SIN Chung-kai was not convinced of the Administration's explanation. He remained concerned that as UICP applications were scrutinized by government officials who, under the proposed measures, would be given the power to allow the whole of the R&D work of a project to be conducted outside Hong Kong, this could give rise to the possibility that UICP might be abused by foreign-capital-owned-local-companies. In this regard, the Deputy Chairman considered that the proposed relaxation was a change of the policy. He enquired whether approval had to be sought from the approving authority, i.e. the Finance Committee (FC) in this particular case. Mr SIN Chung-kai expressed similar concern. He also doubted whether "local universities" had been specified as one of the assessment criteria of UICP projects when the relevant financial proposal was then approved by the FC. He remarked further that he would not give his support to the present proposed relaxation if it was submitted to the FC for approval in future. In response, C(IT) advised that the relevant financial proposal was approved by the FC at its meeting held on 9 July 1999. He undertook to revert to the Panel on whether the FC's approval should be sought on the current proposed relaxation. The Deputy Chairman also requested the Administration to provide a written reply in this regard to the Panel after the meeting, in particular that if the Administration arrived at a conclusion that there was no need to seek the FC's approval on the proposed relaxation, relevant justifications had to be provided.

Admin

(*Post-meeting note:* The paper provided by the Administration was circulated to members vide LC Paper No. CB(1)2384/06-07 on 24 September 2007.)

The way forward

58. Noting members' concerns raised at the meeting, C(IT) proposed and members agreed that the proposed changes to widen the scope of SERAP to cover companies with 20-99 employees and the introduction of a single-phase system of SERAP be implemented within 2007, while the proposal to modify recoupment method of SERAP and those in respect of UICP be withheld subject to future discussion of the Panel.

