

LegCo Panel on Trade and Industry

Innovation and Technology Fund

INTRODUCTION

This paper reports on the operation and the latest position of the Innovation and Technology Fund (ITF)¹.

BACKGROUND

2. The Legislative Council set up the ITF as a statutory fund under the Public Finance Ordinance on 30 June 1999². The Finance Committee allocated \$5 billion to the Fund on 9 July 1999³.

MISSION

3. The ITF has the following mission statement –

"As part of the Government's innovation and technology support programme, the ITF seeks to finance projects that contribute to innovation or technology upgrading in industry, as well as those that contribute to the upgrading and development of industry, to be undertaken by government or non-government entities."

¹ For the background to and details of the ITF, please refer to LC Paper CB(1)1483/98-99.

² Please refer to L.N.175 of 1999.

³ Please refer to FCR(1999-2000)36.

LAUNCH OF THE ITF

4. The ITF was officially launched on 1 November 1999. To publicise the ITF, the Industry Department undertook an intensive publicity programme. In addition to the formal press release, advertisements on the ITF were placed at newspapers, journals, trade magazines, MTR/KCR stations and other prominent locations. Special announcements were made on radio and television stations and on the Internet. Invitation letters were sent to universities and trade/industry associations. Two public briefing sessions were held at the Hong Kong Convention and Exhibition Centre with over 1 000 participants.

5. To enable prospective applicants to know more about the various programmes under the ITF, a "Guide to the ITF" setting out the ambits and details of the four programmes has been published. A separate booklet entitled "How can Your Company Benefit from the Government's Technology Funding Programmes" has also been prepared for the easy reference of local companies. 3000 copies of the Guidebook and 8000 copies of the booklet have so far been distributed.

RESPONSE TO THE ITF

6. Response to the ITF has been overwhelming. Within the first six months of the launch of the ITF, Industry Department has received 406 applications. This compares with the average of 315 applications each year under the previous Industrial Support Fund (ISF) and Services Support Fund (SSF)⁴. While the intensive publicity could in part be a reason for the good response, the ITF has been specially designed to facilitate a wider range of projects than the ISF/SSF. For instance, the introduction of the University-Industry Collaboration Programme⁵ has encouraged more local companies to embark on commercial research and

⁴ The ISF was introduced in 1994 to support projects that contribute to the industrial and technological development of Hong Kong. The SSF was set up in 1996 to support projects that contribute to the overall development and the competitiveness of Hong Kong's service sectors.

⁵ Details of the Programme are at para 7(b) below.

development projects and to leverage on the knowledge and resources available in local universities. The introduction of the Small Entrepreneur Research Assistance Programme⁶ has also fostered small companies and individuals to pursue technology-related business concepts. In addition, the emphasis given by the Chief Executive and the Government as a whole to promoting innovation and technology in Hong Kong also helped to stimulate interest from the business and academic community in undertaking innovation- and technology-related projects.

PROGRAMMES UNDER THE FUND

7. There are four programmes under the ITF –

(a) *Innovation and Technology Support Programme (ITSP)*

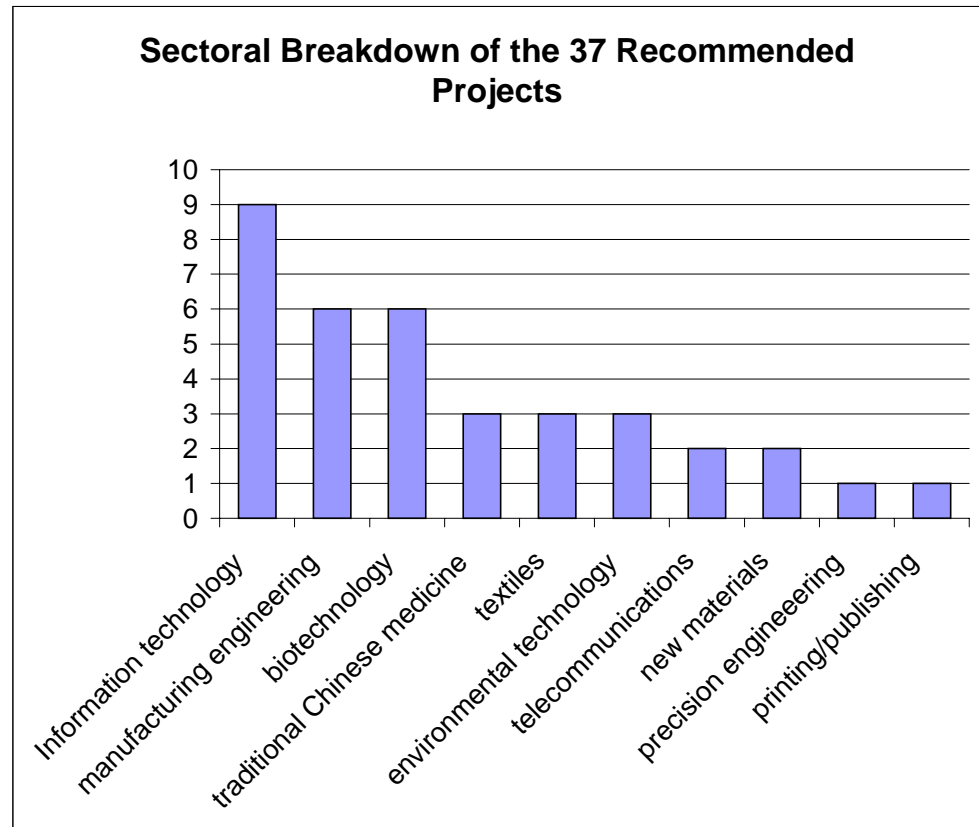
This Programme aims to support midstream/downstream research and development projects undertaken by universities, industry support organisations, professional bodies and trade associations.

All projects require sponsorship of at least 10% of the project cost from more than one private firm. While all intellectual property rights of the project results will be owned by the recipient organisations, the organisations are required to transfer the resulting technologies or disseminate the project results to companies in the relevant industry.

Six sectoral vetting committees have been established to assess the merits of the proposals and monitor the progress of funded projects. They cover information technology, electronics, biotechnology, environmental technology, foundation industries and textiles. These vetting committees comprise businessmen, technologists, academics and Government officials to provide the necessary commercial,

⁶ Details of the Programme are at para 7(d) below.

technical and policy input in the assessment and monitoring process. Applications are invited twice a year. The Industry Department invited the first tranche of applications in November and December 1999. 189 project proposals were received. The vetting committees have evaluated each one of the proposals and have recommended 37 of them for funding support.



(b) *University-Industry Collaboration Programme (UICP)*

This Programme aims to support commercial research and development projects undertaken by private companies in collaboration with local universities. The objective is to stimulate private sector interest in research and development through leveraging the knowledge and resources in universities.

Funding is provided on a matching basis, with the private company

and the ITF each bearing half of the project cost in cash. The private company will own all the intellectual property rights arising from the project. However, the university may agree with the company on royalty arrangements before the project commences. Because of the sensitivities involved in these commercial projects, no vetting committee has been formed. Instead, the Industry Department will ensure that the projects tie in with the objective of the Programme and that the budgets involved are reasonable. As a start, the following schemes have been introduced under this Programme:

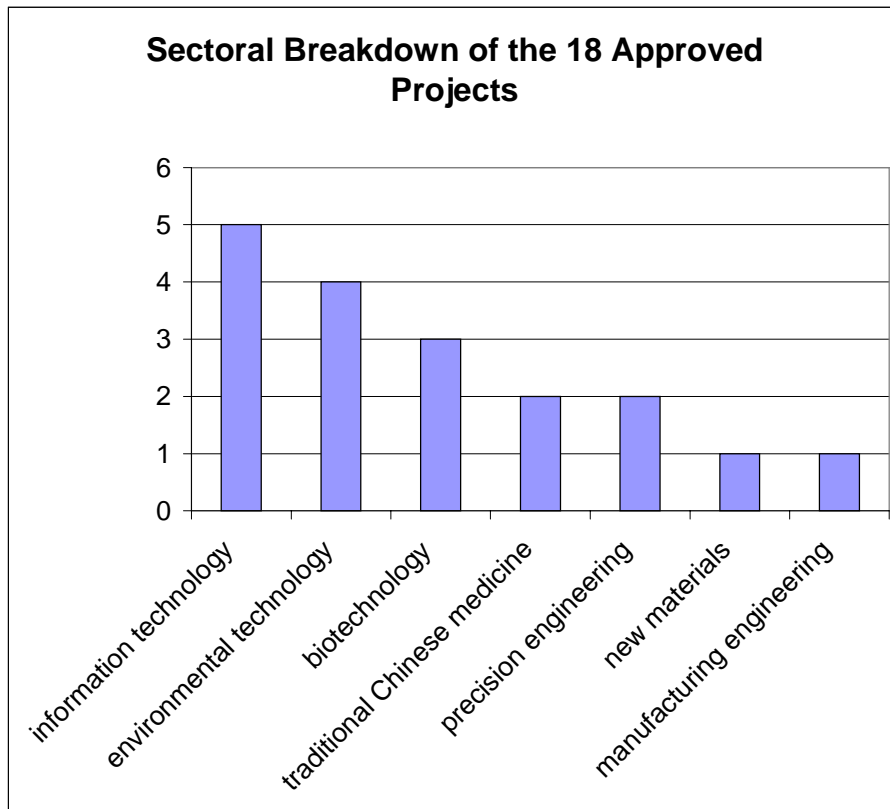
- Teaching Company Scheme⁷
- Matching Grant for Joint Research⁸
- Industrial Research Chair Scheme⁹

The Programme is open for applications all year round. Between 1 November 1999 and 30 April 2000, the Industry Department has received 32 applications, 18 of which have been approved. Three of them come under the Teaching Company Scheme, another under the Industrial Research Chair Scheme, and the remaining 14 under the Matching Grant for Joint Research. The other 14 applications are being processed.

⁷ Under this scheme, companies can take on graduate students pursuing a higher degree in local universities to assist in their proprietary R & D projects lasting not more than two years. The university will provide teaching guidance for the students in handling the projects. The students' performance in the project will be counted towards his/her degree performance.

⁸ This scheme fosters private companies to collaborate with local universities in their commercial R & D projects.

⁹ This scheme assists companies and universities to develop research efforts in technology fields that are not yet developed in Hong Kong but for which there is good development potential in the longer term. The project should be in the natural science and engineering field. A distinguished researcher in the university can be invited to be the chairholder and lead the project for a finite duration. The chairholder will mainly conduct research of the project and will be given a light teaching load.



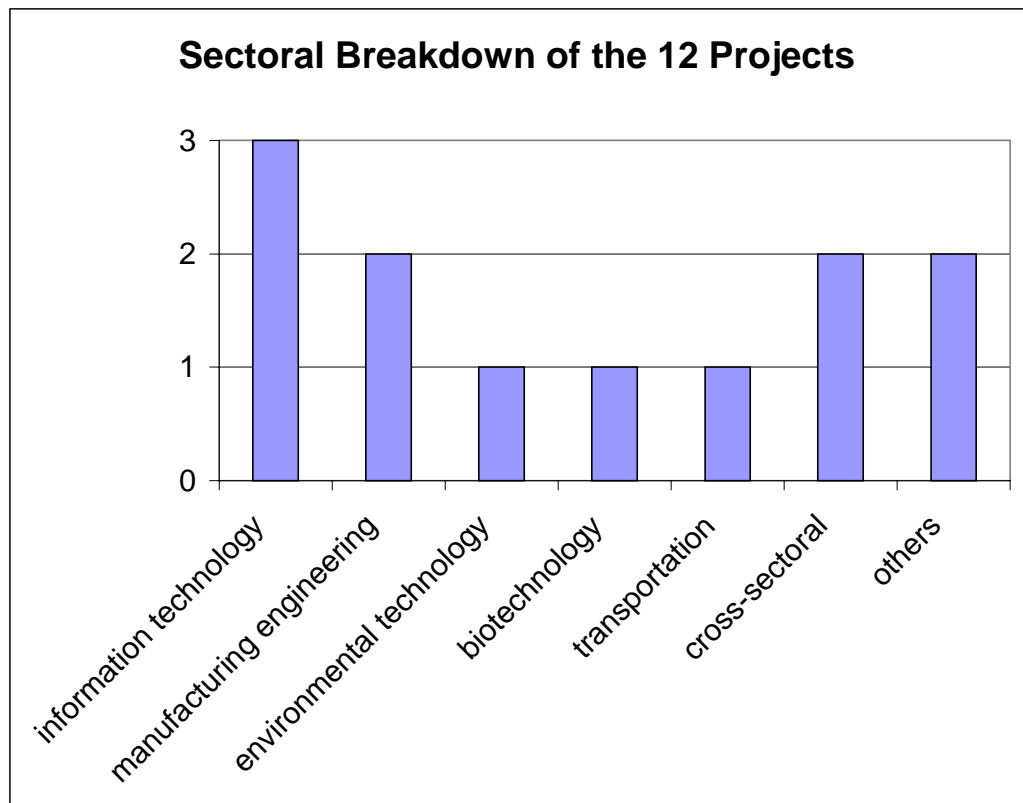
(c) General Support Programme (GSP)

This Programme supports projects that contribute to fostering an innovation and technology culture, such as conferences, exhibitions, seminars etc. Projects that are not directly related to innovation or technology upgrading, but will nonetheless contribute to the general upgrading or future development of our manufacturing or service industries can also be supported. Priority will however be given to projects that have a stronger innovation or technology relevance.

Similar to the Innovation and Technology Support Programme, all projects under this Programme require sponsorship of at least 10% of the project cost from more than one private firm. The organizations are required to disseminate the project results but all intellectual property rights of the project will be owned by the recipient organisations.

A vetting committee has been established to assess the merits of the proposals and monitor the progress of funded projects. Its members comprise businessmen from different sectors.

Applications are invited twice a year. The Industry Department invited the first tranche of applications in November and December 1999. 90 project proposals were received. The vetting committee has evaluated each one of the proposals and has recommended 12 for funding support.



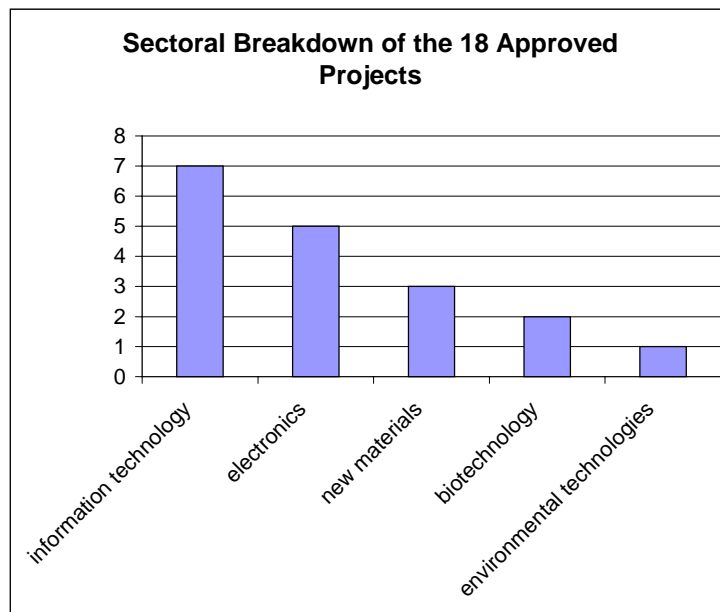
(d) *Small Entrepreneur Research Assistance Programme (SERAP)*

This is a programme for pre-venture capital stage financing of technology entrepreneurs for starting up, carrying out research and development, and conducting market validation. For projects approved for funding, a grant of up to \$2 million will be provided on a dollar-for-dollar matching basis. The matching fund can be in the

form of manpower contribution. The grant will be recouped if the project is able to attract follow-on investment or generate revenue.

The company will hold all intellectual property rights arising from the project. An Assessment Panel comprising technologists, professionals, academics, venture capitalists and investors has been set up.

The Programme is open for applications all year round. Between November 1999 and April 2000, 95 applications have been received, 18 of which have been approved, 71 rejected and 6 are being processed.



ADMINISTRATION

8. The Financial Secretary is the administrator of the ITF. The Director-General of Industry has been delegated the power to oversee its day-to-day operation. The approval of the Legislative Council Finance Committee will be sought for individual ITF projects costing more than \$15 million.

PROJECT ASSESSMENT, MONITORING AND EVALUATION

9. The project assessment criteria include the potential contribution of the project to innovation and technology upgrading of the economy, commercialisation potential, the capability of the project team etc. As set out in LC Paper CB(1)1483/98-99, to facilitate project assessment, applicants are required to set out, where possible, measurable objectives that the proposed project would likely achieve¹⁰. These objectives will also form the basis for the evaluation of the results of the projects.

10. We have also put in measures to monitor the progress of the projects¹¹ and to evaluate the usefulness of project results¹².

LATEST DEVELOPMENTS

11. Vetting for the first tranche of applications under the ITSP and GSP has just been completed. The second tranche of applications will be invited in late May 2000. Applications under the UICP and SERAP will continue to be accepted all year round.

12. With a view to enhancing its capability in project assessment, monitoring and evaluation, the Industry Department has strengthened its internal setup through recruiting four technical experts, three of them being doctorate degree-holders. More technologists will be recruited in the coming months to

¹⁰ This includes, for example, the number of firms that would likely adopt a certain technology; the expected number of participants at a funded event, etc.

¹¹ These include periodic reviews, disbursement of funds only upon the achievement of project milestones, mid-term evaluation etc.

¹² Performance yardsticks will be set to evaluate the project results. Projects will be evaluated against their original objectives and targets. When conducting the evaluation, feedback from the project teams, their partners/sponsors, the relevant business sector, and the experts that have assisted in the project assessment would be sought. Given the diverse nature of projects, it would not be feasible or desirable to devise a single set of evaluation criteria for all projects.

strengthen the Department's support in this regard. In particular, the Department will be seeking to recruit two Science Advisers who, in addition to supporting the Council of Advisers on Innovation and Technology, will also provide specialist advice in respect of disbursements from the ITF.¹³ The Department has also established an audit team staffed by qualified accountants to carry out stringent auditing on the use of ITF funds by the supported projects.

ADVICE SOUGHT

13. Members are invited to note the content of this paper.

Trade and Industry Bureau

May 2000

¹³ Para. 2.13 of the 2nd Report of the Chief Executive's Commission on Innovation and Technology published in June 1999.