

ITEM FOR FINANCE COMMITTEE

**HEAD 155 – GOVERNMENT SECRETARIAT :
INNOVATION AND TECHNOLOGY COMMISSION
Subhead 700 General non-recurrent
New Item “DesignSmart Initiative”**

Members are invited to –

- (a) approve a new commitment of \$250 million for the setting up of a DesignSmart Initiative; and
- (b) note that projects under the Design Support Programme of this commitment costing more than \$10 million each will be submitted to Finance Committee for individual approval.

PROBLEM

We need to strengthen our support for design and innovation, and promote the wider use of design and innovation in industries to help them move up the value chain.

PROPOSAL

2. The Commissioner for Innovation and Technology (CIT), with the support of the Secretary for Commerce, Industry and Technology (SCIT), proposes to create a new commitment of up to \$250 million to set up a DesignSmart Initiative. It is our intention that CIT will only approve projects under the Design Support Programme of this commitment costing up to \$10 million each. CIT will refer projects costing more than \$10 million each to Finance Committee (FC) for individual approval.

/JUSTIFICATION

JUSTIFICATION

3. 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 objective is to enhance industry understanding and application of design and innovation, and to promote design as a value adding 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 and thence original brand manufacturing.

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. 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 the Mainland in the wake of China's accession to the World Trade Organization (WTO) and the recent implementation of the Mainland and Kong Kong Closer Economic Partnership Arrangement (CEPA) and other parts of Asia; 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. We consider it necessary to strengthen support for innovation and design to better harness the economic potentials of design. Through DesignSmart Initiative, we seek to instill into our industries high value-add, high intellectual property and creativity content. We note that other economies in the region such as Korea, Singapore and Taiwan have also launched major initiatives to promote design.

7. 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. We consider that design is a professional business activity (as opposed to a form of art) that can add value and increase competitiveness of products or services by interfacing with aesthetics, science and technology. 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.

8. Given the diversity of design disciplines and the multi-disciplinary nature of design processes, we consider that the DesignSmart Initiative should aim at supporting and promoting design and related activities that would offer industries and businesses the ability to differentiate themselves from their competitors, add value to their products or services, and increase their economic competitiveness.

Programmes under DesignSmart Initiative

9. The DesignSmart Initiative (the “Initiative”) will comprise two main elements, namely, financing a design support programme and setting up a one-stop shop for a design cluster.

Design Support Programme

10. We propose to set aside \$180 million for a Design Support Programme to finance projects in four categories - design research; design/business collaboration; design professional continuing education as well as promoting and honouring design excellence. As Controlling Officer for the DesignSmart Initiative, CIT will be responsible for administering the Design Support Programme.

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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.

(A) Design research (including branding research)***Scope, Objective and Eligibility***

11. This scheme aims at supporting research-based activities in design or branding-related areas with a view to providing a platform for attaining greater awareness and knowledge critical to the effective utilization and deployment of design in mainstream industrial or business processes.

12. Universities, industry support organizations, trade and industry associations, professional bodies, research institutes and local companies (either locally incorporated or established under the statute of the Hong Kong Special Administrative Region) are eligible to apply.

Assessment and Funding Criteria

13. The research activities should be organized by experienced and reputable organizations and directly relevant to design. The deliverables of the research projects should demonstrate that they meet the needs of the industry or a sector. Accordingly, applicants will be required to provide information such as details of the research projects and the profile of the applicants, the relevance of the research to the industry, the interest and participation of the industry in the projects. Successful project applicants are expected to secure industrial/commercial sponsorship of at least 10% of the approved project cost to demonstrate industry support.

(B) Design-business collaboration***Scope, Objective and Eligibility***

14. This scheme aims to promote the interest and investment of small-and-medium-sized enterprises (SMEs)³ in relation to utilizing design and transforming design activity into tradable deliverables that manifest exploitation and deployment of intellectual property, which may comprise patent, copyright, trademark or industrial design.

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³ 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. "The number of persons employed" shall include individual proprietors, partners and shareholders actively engaged in the work of the company; and salaried employees of the company, including full-time or part-time salaried personnel directly paid by the company, both permanent and temporary, at the time of submitting applications.

15. Applicants will be local design companies or academic institutions, with local SMEs as collaborating parties.

Assessment and Funding Criteria

16. Design projects that would give rise to tradable deliverables and that would offer businesses the ability to differentiate themselves from competitors, add value to their products or services, and increase their competitiveness may be funded. The applicant design company (or the academic institution concerned) and the SMEs in the project are expected to contribute in aggregate at least 50% of the approved project cost. Government's maximum funding support for each approved project is \$100,000. The Government will, in the light of operational experience, consider setting a limit on the maximum amount of support which a particular company may receive (either in terms of cumulative funding approved or number of projects approved).

(C) Professional continuing education

Scope, Objective and Eligibility

17. This scheme will cater for the development of professional continuing training courses that contribute to design capability building and nurturing of talents as well as appreciation and understanding of design by industry. This scheme will mainly fund the initial development costs of new design training courses on a non-profit-making basis by local organizations or in collaboration with overseas training organizations that can enrich training opportunities for our designers and the industry. Universities, industry support organizations, trade and industry associations, professional bodies, research institutes and local companies are eligible to apply.

18. Part of the scheme will be used to help launch a DesignStar Scheme, the purpose of which is to select and sponsor, about two best designers each year to undergo maximum one-year training or work attachment at reputable organizations so as to broaden the horizon of our aspiring designers.

Assessment and Funding Criteria

19. The professional continuing education courses should be developed and organized by experienced and reputable organizations and directly relevant to the needs of the design profession and the industry.

20. The DesignStar Scheme will be selected by an assessment panel chaired by CIT through awards, competition or any other form to be determined. The awardees concerned need to be Hong Kong permanent residents. Awardees need to demonstrate commitment to contribute to Hong Kong design by, say, returning to Hong Kong after the course/work attachment to share their experience as required by the Innovation and Technology Commission (ITC). We intend to grant, say, two awards each year with an estimated expenditure of around \$1 million in total.

21. Successful applicants are required to contribute or secure industrial/commercial sponsorship of at least 10% of the approved cost to demonstrate the commitment of the applicants.

(D) General Support Activities

Scope, Objective and Eligibility

22. This category will cater for projects that contribute to fostering the culture, greater appreciation and adoption of design, and honoring excellence in design in Hong Kong, including conferences, exhibitions, seminars, etc.

23. Universities, industry support organizations, trade and industry associations, professional bodies, research institutes and local companies are eligible to apply.

Assessment and Funding Criteria

24. Due consideration will be given to, among other things, the potential of the project to facilitate general upgrading and future development of design and its adoption by the industry; to contribute to the upgrading of the economy through design and broaden the knowledge base in design. All projects require industrial/commercial sponsorship of at least 10% of the total project cost to demonstrate industry support.

Administration of the Design Support Programme

Encl. 1 25. The modus operandi applicable to the funding programmes in general is outlined at Enclosure 1. In addition, ITC will also set out detailed assessment criteria for the vetting of applications. The assessment criteria should have regard to a number of factors related to the potential contribution of the project to improving 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 manifests exploitation and deployment of intellectual property; the capability of project team and its commitment. A list of the main factors that will be taken into consideration in setting the detailed assessment criteria is at Enclosure 2.

Encl. 2

26. The indicative funding split amongst the four categories of design support programmes is as follows –

(A)	Design research	\$60 million
(B)	Design-business collaboration	\$50 million
(C)	Professional continuing education	\$30 million
(D)	General support activities	\$40 million
	Total	\$180 million

Our preliminary assessment is that the programme will benefit about 700 projects over the coming five years. The total number of beneficiaries of these projects would be multiples of this number because activities such as design research will benefit the industry as a whole and events like exhibitions, seminars and workshops will be attended by many. Since the initiative is new and there is a need for flexibility, we will revisit the apportionment ratio with a view to making the best use of the limited public resources.

27. We also propose that for transparency purpose any individual project requiring more than \$10 million funding from the Design Support Programme will be submitted to FC for approval.

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Monitoring and Review

28. An assessment panel, chaired by CIT and comprising officials, professionals, industrialists, businessmen, designers and academics will be set up to assess applications under the Design Support Programme and monitor progress. Site visits will be conducted and financial report and progress report will be required as appropriate. Post-completion evaluation against the original objective, milestones and deliverables will be conducted. The Government also intends to review the operation of the programme periodically.

Setting up of a one-stop shop

29. ITC also intends to set aside \$70 million for setting up a one-stop shop for creating and sustaining a cluster of high value-added design activities among design professionals and interns, and companies, where creative ideas with functionality will be stimulated, nurtured, researched, promoted, commercialised and branded. The funding includes some \$45 million to support the operations of the Hong Kong Design Centre (HKDC)⁴ on a time-limited basis, and \$25 million for the Hong Kong Science and Technology Parks Corporation (HKSTPC)⁵ to extend its incubation programme to more specifically cover design-related initiatives. The Tech Centre in Kowloon Tong, currently vested with the HKSTPC, will be renamed provisionally as “Innovation and Design Centre” (the Centre) to cope with the setting up of the one-stop shop. The one-stop shop in the Centre will provide the following services –

- (a) incubation services for design ventures⁶;
- (b) professional education and training,
- (c) design-related exhibition, seminars and workshops;
- (d) design-related resource centre such as design library; and
- (e) events and activities for networking among design professionals and user industries.

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⁴ 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 bodies in Hong Kong, viz the Hong Kong Designers Association; Chartered Society of Designers, Hong Kong; Interior Design Association Hong Kong and Hong Kong Fashion Designers Association. The objectives of the HKDC are to, among other things, promote design as a value added activity and integrate it into mainstream business processes. Currently, it operates from its premises at 28 Kennedy Road.

⁵ The HKSTPC is a statutory organization to provide 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, to providing land in industrial estates for production.

⁶ 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 rendered to start-up companies in their critical, initial stages of development for operation and growth.

It will also facilitate networking among design professionals and user industries as HKSTPC is a platform for technology-based companies which may utilize design services available in the Centre. The design support services and networking fostered in the Centre may provide value-adding services to technology-based companies, thus achieving greater synergy and integration of design into the mainstream industrial processes.

30. The one-stop shop will be jointly run by HKSTPC and HKDC. HKSTPC, being the owner of the Tech Centre, will be responsible for the day-to-day maintenance of the new Innovation and Design Centre. With its expertise in running an incubation programme for technology-based start-ups, HKSTPC will also be responsible for developing and providing the incubation services for design ventures. As HKSTPC is currently providing an incubation programme for technology-based companies, it will expand its scope to design-related ventures. Moreover, to build up a design cluster, the HKSTPC will also use rental space currently provided in the Tech Centre for technology-based companies to expand its tenant clientele to design-related companies.

31. On the other hand, in order to draw on the professional knowledge of the relevant design associations, HKDC will be responsible for developing and organising professional education and training; design-related exhibition, seminars and workshops; design-related resource centre such as design library; as well as events for networking among design professionals and user industries. HKDC will pool together its existing resources at its current premises at Kennedy Road in running the one-stop shop. These events generally aim at strengthening the capabilities of Hong Kong design and promoting Hong Kong design to industry. They will be held not only at the Centre, HKDC's current premises at Kennedy Road but also other places in Hong Kong or outside Hong Kong (e.g. exhibition event may be held in Pearl River Delta).

32. We propose to use part of the funding under the "Initiative", estimated at \$70 million, to operate the one-stop shop in its initial years, say five years. About \$25 million will be set aside for the incubation programme for design ventures to be run by HKSTPC. We estimate that with this provision, HKSTPC will be able to assist about 50 companies through the incubation programme over the coming five years. About \$45 million will be used to support the operations of the HKDC on a time-limited basis. The funding can contribute towards HKDC organizing professional education and training, setting up design-related resource centre, facilitating networking, etc. (i.e. as those mentioned in paragraph 31 above).

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Control Mechanism

33. ITC will disburse funds to HKDC to provide necessary support services at the one-stop shop, subject to necessary safeguards and funding requirements (such as prior approval of estimates and furnishing of audited accounts, etc.) as set out in a memorandum of administrative arrangements to be concluded between HKDC and ITC. 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 for incubation programme, it will be based on the requirement estimated by HKSTPC in each financial year. Other than controls exercised through the HKSTPC Board of Directors⁷, CIT, as Controlling Officer, will also impose necessary conditions to safeguard the disbursement of public funds.

FINANCIAL IMPLICATIONS

34. The “Initiative” will require a non-recurrent allocation of \$250 million. While the actual allocation of funding into the different categories of the “Initiative” will depend on the volume and merits of applications received, we estimate that the breakdown of use of the \$250 million, if approved, may be approximately as follows –

Expenses	\$'000
(a) Design Support Programme	180,000
(b) Development of a one-stop shop for a design cluster -	70,000
(i) design-related activities as outlined in paragraph 31 above, including the relevant manpower, event expenses, venue rental and incidental expenditure of HKDC for accomplishment of the one-stop shop	45,000
(ii) incubation programme by the HKSTPC	25,000
Total	250,000

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⁷ The 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 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.

35. Depending on industry feedback and operational experience, we envisage a need to review the indicative funding apportionment as presented above. If a change to the indicative apportionment is necessary, ITC will adjust the funding mix within the approved commitment ceiling of \$250 million provided the scope of appropriation remains within the ambit approved for the Design Support Programme and the development of the one-stop shop and provided the indicative apportionment at \$180 million and \$70 million is not varied by 25% or more. Variations off bound by 25% or more will be subject to approval by SCIT.

36. The staff cost needed for operating the “Initiative” will be absorbed within the existing resources of ITC. Administrative expenses (other than staff cost) required for the smooth implementation of the Design Support Programme will be borne by the “Initiative”. The amount will not be significant and will be charged under the category of Design Support Programme.

CONSULTATION

37. The ITC conducted a one-month public consultation exercise on the “Initiative”. ITC met with a total of 17 organizations, including designer associations, industrial organizations and education institutes. ITC has received a total of 26 submissions. Respondents generally supported the “Initiative”. We also consulted the Legislative Council Panel on Commerce and Industry on the proposal on 10 May 2004. Members generally supported the proposal.

BACKGROUND INFORMATION

38. The Financial Secretary announced in his Budget Speech on 10 March 2004 that the Government planned to launch a “DesignSmart 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.

General Modus Operandi of the Design Support Programme

1. Where applications are made by legal entities, the entity concerned should be a company incorporated in Hong Kong under the Companies Ordinance (Cap 32) and has substantial connection to Hong Kong or a body corporate incorporated in Hong Kong under other ordinances of the Hong Kong Special Administrative Region.
2. Applications under the Programme will be invited for no fewer than two times a year. The Innovation and Technology Commission (ITC) may also from time to time issue theme-specific topics to solicit applications.
3. Any intellectual property rights derived from the project will be owned by the project applicant (or be co-owned by the project applicant and the sponsor and partner 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 applicant 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.
4. Successful applicants will be required to comply with conditions of the grant. They will also be required to submit a final report with accounts certified by a qualified accountant (or audited accounts if necessary) after the project is completed. Depending on the nature and duration of the project, the applicants may be required to submit regular progress reports on a six-month basis.
5. Only cost directly related to the project (or attending the courses/work attachment for DesignStar Scheme) will be covered. Industrial/commercial sponsorship, if required, can be in kind or in cash.

6. An assessment panel, chaired by the Commissioner for Innovation and Technology, comprising officials, professionals, industrialists, businessmen, designers, academics will be set up to assess applications and monitor progress and review the quality of each funded project. 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. ICAC's advice will be sought on the vetting procedures.
7. 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).
8. Interest income derived from grants disbursed to successful project applicants will be kept by the applicants for use in the projects concerned during the project period. Any unused balance upon the completion of the project will be returned to General Revenue.
9. Successful applicants will be required to carry out the projects as approved. Government will reserve the right, inter alia, to terminate funding, demand immediate return of all the disbursed funds, with interest at prime rate, and hold the successful applicants liable for any loss or damages the Government may sustain if the successful applicants are in breach of any of the terms and conditions of funding or undertakings made for the approved projects.

**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 further development of innovation and design in one or more sectors in industry.
4. For product/service design 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 manifests exploitation and deployment of intellectual property, which may comprise patent, copyright, trademark or industrial design.
6. The commitment of the company as demonstration of the industrial or commercial relevance of the project.
7. The capability of the project team as demonstration of having necessary expertise, experience, qualifications, track record and the resources available in bringing the project to fruition.
8. The planning and organization of the project, including the schedule of implementation, the milestones and expected deliverables, etc.
9. Whether the proposed budget is reasonable and realistic.
10. Whether the project has been funded or should be funded by other government sources.

11. Whether the project is duplicating or likely to duplicate the work carried out or to be carried out by other entities.
12. Whether there would be any post-project recurrent cost implications.
13. Any other special factors which are relevant and contribute towards the objective of the Design Support Programme.
