

For discussion on
21 February 2017

**Legislative Council
Panel on Commerce and Industry**

**Technology Voucher Programme and
Government Policy on
Procuring Information and Communications Technology Products**

BACKGROUND

There are more than 300 000 small and medium enterprises (“SMEs”) in Hong Kong, employing 50% of the private sector workforce. They form the backbone of our economy. The Government has been encouraging SMEs to adopt innovation and technology to enhance the efficiency of business operations, and devising appropriate measures to facilitate SMEs in bidding for Government contracts of information and communications technology (“ICT”) products and services. This paper sets out the implementation of the Technology Voucher Programme (“TVP”) which was launched with a view to helping SMEs to enhance competitiveness through the use of technologies, as well as the measures adopted by the Government in the procurement of ICT products and services to facilitate SMEs in bidding for such contracts.

TECHNOLOGY VOUCHER PROGRAMME

2. The 2016-17 Budget announced that the \$500 million TVP would be launched under the Innovation and Technology Fund on a pilot basis to subsidise local SMEs in using technological services and solutions to improve productivity, or upgrade or transform their business processes.

Mode of Funding and Eligibility

3. The Innovation and Technology Commission (“ITC”) officially launched the TVP last November. The TVP provides a cumulative funding up to \$200,000 for each eligible SME on a 2:1 matching basis to carry out a maximum of three approved projects. Each project should normally be completed within 12 months. To ensure proper focus on project implementation, an SME cannot undertake more than one TVP project at the same time.

4. Applicant enterprises must be registered in Hong Kong under the Business Registration Ordinance (Cap. 310) (“BRO”), with at least a year of substantive business operation in Hong Kong, and fulfil the Government’s definition of SMEs¹.

Funding Scope

5. Given the rapid development of technologies, the TVP has not defined the types of technological services that can be subsidised. Funding may be used to subsidise technology consultancies, equipment, software and hardware, etc., that are pertinent to the project. We hope to encourage SMEs to examine their business operations and identify necessary technologies to address business challenges in order to improve productivity, or upgrade or transform their business processes, rather than merely procuring readily available technological products or services, such as off-the-shelf software and hardware as well as subscription-based cloud services. Nonetheless, technological services and solutions inevitably involve some off-the-shelf elements which are also an essential part of the project. On balance and having considered the practices of other countries, the TVP Committee (“the Committee”) agreed that the TVP may also subsidise projects that involve readily available technological products/services, provided that such expenditure should in general constitute 50% or less of the total project cost.

Service Providers

6. Regarding selection of service providers, the design of the TVP allows SMEs a considerable degree of flexibility. The TVP neither restricts technology service providers to a designated list, nor imposes restrictions on their locations or experience. SMEs only need to select the most suitable service providers in accordance with their business requirements and the procurement procedures prescribed under the TVP. Both local and international technology companies (including incubatees of the Hong Kong Science Park and Cyberport) can become service providers. The TVP only requires that when an SME engages a technology consultant, the consultant concerned must be a local university, research institution or a company registered under the BRO, so as to ensure that the consultant could suitably consider the local setting during the formulation of technological solutions.

¹ SMEs refer to enterprises engaged in manufacturing businesses employing fewer than 100 persons in Hong Kong, or enterprises engaged in non-manufacturing businesses employing fewer than 50 persons in Hong Kong.

7. To ensure proper use of public funds, SMEs should generally award the procurement contract to the bidder submitting the lowest conforming quotation. However, subject to agreement of the Committee, the TVP also allows SMEs to provide justifications for accepting a quotation that is not the lowest.

Assessment Procedures

8. Upon receipt of applications from enterprises, ITC will check their eligibility and conduct preliminary screening. Eligible applications will be submitted to the Committee for assessment. The assessment criteria include: relevance of the project to the applicant enterprise's business, reasonableness of the budget and implementation details, and any adverse record of the consultants and/or service providers to be engaged, etc. Applications supported by the Committee will be submitted to ITC for approval of funding. Members of the Committee come from the business sector, technology sector, professional services sector and relevant Government departments. The composition of the Committee is at **Annex A**.

Monitoring and Funding Disbursement

9. Enterprises are required to implement the projects in accordance with the approved applications and funding agreements, including keeping a proper set of books and records for the project, and submitting a final project report, a statement of project expenditure, payment receipts and relevant supporting documents to ITC after project completion. ITC will also conduct random on-site checks of projects. Funding will be reimbursed to the enterprises upon acceptance of the final project reports by the Committee.

Latest Situation

10. ITC has provided online a pamphlet (**Annex B**) and Guidance Notes for Applications, as well as set up an enquiry hotline. In addition, ITC has organised nine briefing sessions to explain the details of the TVP to SMEs and the technology sector since its launch. The briefing sessions have attracted over 1 300 attendances and will continue to be arranged in the future on a need basis. Details of the completed briefing sessions are at **Annex C**.

11. Since its launch, the TVP has received an encouraging response from SMEs. As at end-January this year, 836 SMEs have registered on the TVP website and 136 applications have been received. Among which, four applications were withdrawn by the applicant enterprises; 86 applications could not be processed and had to be returned to the applicant enterprises, mainly because the applicants had not submitted all the supporting documents required, such as documentary evidence proving that the applicant enterprise had at least a year of substantive business operations in Hong Kong, Business Registration Certificate or Annual Return of the Companies Registry of the applicant enterprise, quotations of the expenditure items, proof of identity of the person signing the application form, etc.; and 18 applications are awaiting supplementary information or clarifications about the project details from the applicant enterprises. The average project cost of the applications is about \$180,000, seeking funding of about \$110,000 on average. The technological services/solutions involved include: document management and mobile access systems, enterprise resource planning solutions, electronic inventory management systems, point-of-sale systems as well as big data and cloud-based analytics solutions, etc. The types of business engaged in by the applicant enterprises are mainly wholesale and retail, information technology, engineering, import and export trade as well as professional services.

12. At the end of January and in early February this year, the Committee assessed the first two batches of 23 eligible applications in total, 21 of which were supported by the Committee for funding, with a success rate of over 91%. The total funding approved was about \$2.77 million, averaging about \$130,000 per project. Two applications were not supported by the Committee because the projects were merely for purchasing off-the-shelf software and hardware, which had violated the objectives of the TVP (see paragraph 5 above). The remaining 5 applications are more complicated and will be submitted to the Committee for discussion later.

13. We will closely monitor the implementation of the TVP and will review its effectiveness and *modus operandi*, such as the funding scope, funding amount and vetting procedures, etc., with the Committee after two years, or when we foresee full commitment of \$500 million, whichever is the earlier.

GOVERNMENT POLICY ON PROCURING INFORMATION AND COMMUNICATIONS TECHNOLOGY PRODUCTS

14. The Government's procurement policy is to obtain goods and services at the best value for money through open and fair competition. We do not favour or discriminate against any supplier. As a member of the Agreement on Government Procurement of the World Trade Organisation ("WTO GPA"), Hong Kong has to abide by the relevant agreement and cannot impose any requirements which discriminate against foreign suppliers when procuring goods and services covered by the WTO GPA. On the other hand, the WTO GPA also ensures that when Hong Kong suppliers enter overseas markets, they can fairly compete with the local and other foreign suppliers for relevant government contracts.

15. On the condition of not violating the WTO GPA, the Government has also implemented some facilitation measures which are similar to those of other overseas members, in order to encourage local SMEs to bid for government information technology ("IT") projects. They include –

- (a) encouraging government bureaux and departments ("B/Ds") to break large-scale IT projects into multiple projects of smaller size, in order to increase the chance for SMEs to be awarded government contracts;
- (b) providing a quarterly catalogue of projects for private sector participation on the "Digital 21 Strategy" website for suppliers' reference;
- (c) launching platforms such as the "Suppliers Community Portal" and "IT Promotion Database" on the website of the Office of the Government Chief Information Officer ("OGCIO"), in order to facilitate suppliers (including SMEs) to introduce their scope of business and products to B/Ds;
- (d) providing free electronic procurement services through the "GovProcurement" website to improve tenderers' efficiency and reduce their efforts in preparing tender submission;
- (e) B/Ds would avoid awarding to the same tenderer if the tender involves more than one contract; and
- (f) lowering the contract deposits to be paid by the contractors.

16. To facilitate B/Ds' procurement work, the OGCIO has prepared different kinds of standing offer agreements ("SOA")², covering different IT products and services (including computer equipment, network products and enterprise server systems, mobile workplace services, data centre services, and IT professional services) in order to enhance the efficiency and cost-effectiveness in government procurement.

17. As regards IT services, the Government has currently entered into a Standing Offer Agreement for Quality Professional Services³ ("QPS SOA") with 42 contractors, of which 10 are SMEs. From the commencement of the current QPS SOA in July 2013 to end December 2016, the Government awarded a total of 1 116 contracts, including 263 (or about 24%) awarded to SMEs.

18. The current QPS SOA will expire in July 2017. The Government has conducted a new round of tendering in December 2016 and evaluation is currently underway. To encourage more SMEs to bid for government IT projects, the OGCIO has introduced a number of enhancements in the tendering process, including –

- (a) raising the limit of contract value from \$10 million to \$15 million for the four categories of IT professional services under the agreement (except the "minor groups" under service categories (2) and (3)) to allow larger government contracts to be awarded through QPS SOA;
- (b) regarding the "minor groups" which were created under service categories (2) and (3) (i.e. "on-going services" and "system development and implementation services") to attract SMEs to participate in the agreement, the relevant contract value limit has been raised from \$1.43 million to \$3 million, so that SMEs can participate in government projects of higher value. Also, we stipulate that the same supplier can only bid for either the minor or

² Through open tenders, the Government enters into different kinds of SOAs with contractors for the supply of services and products to B/Ds. Within the validity period of the respective SOA, B/Ds may invite proposals from contractors for individual procurement of IT project and select a suitable contractor for the provision of goods or services through technical (if applicable) and price assessments. This arrangement allows B/Ds to avoid entering into tendering procedures for every procurement, thereby enhancing the efficiency of procurement.

³ The SOA covers four categories of professional IT services: (1) pre-implementation services (e.g. strategic studies and feasibility studies); (2) on-going services (e.g. repair and maintenance); (3) system development and implementation services (i.e. designing and writing new systems); and (4) IT security and independent testing services. To encourage SMEs to participate in the agreement, "minor groups" are created under service categories (2) and (3).

major group of the relevant service category, in order to allow more SMEs to participate in government projects;

- (c) increasing the number of contractors under each category of IT professional services from 12 to 16, so that more suppliers can participate in government projects;
- (d) lowering the basic requirement for tendering in some service categories by lowering the aggregate sales volume of the bidders over the past three years to about one third of the current requirement, in order to attract more SMEs to submit tenders; and
- (e) putting more emphasis on the technical aspect in B/Ds' technical and price assessments for individual projects. In some suitable projects, such as strategic studies, and design and implementation of reliable and quality IT solutions, the price/technical ratio has been changed to 60:40 from the commonly adopted ratio of 70:30, in order to reflect the importance of innovative and technical elements of these projects.

19. The OGCIO will closely monitor the effectiveness of the above enhancement measures, and will review and continue to enhance the SOA at appropriate juncture after implementation in order to encourage more SMEs to bid for government IT projects.

ADVICE SOUGHT

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

Innovation and Technology Bureau
Innovation and Technology Commission
Office of the Government Chief Information Officer
February 2017

Technology Voucher Programme Committee

Chairman

Professor Eric Yim Chi-ming, JP

Vice Chairman

Mr Alan Cheung Yick-lun

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Dr Stephen Kwok Chun-pong, MH

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Ir Wilson Kwok Wai-shun

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Professor Wong Kam-fai, MH

Mr Luther Wong Lok-tak, JP

Professor Wong Wing-tak

Mr Terence Cheung Kwong-tat

Miss Cecilia Woo Lee-wah

Ex Officio Members

Commissioner for Innovation and Technology or his/her representative

Government Chief Information Officer or his/her representative

Director-General of Trade and Industry or his/her representative

TECHNOLOGY VOUCHER PROGRAMME

The **Technology Voucher Programme (TVP)** aims to subsidise local small and medium enterprises (SMEs) in using technological services and solutions to improve productivity, or upgrade or transform their business processes.



The Innovation and Technology Commission (ITC) launched the **TVP** in November 2016. Each SME may receive a cumulative funding up to **\$200,000** for a maximum of **three projects**. The enterprise must contribute **no less than one third of the total project cost**.

Application

- + Eligibility:**
- ◆ registered under the Business Registration Ordinance
 - ◆ **≥ one year** substantive local business operation
 - ◆ manufacturing enterprises:
< 100 employees
 - ◆ non-manufacturing enterprises:
< 50 employees

Obtain quotations from technology consultant, service provider(s) and supplier(s)

Submit application with **required documents:**

- ◆ copy of Business Registration (BR) Certificate, copy of Form 1(a) of BR Office or Form NAR1 of Companies Registry
- ◆ evidence of substantive business operation (e.g. **invoices/receipts, commercial contracts, audited account**)
- ◆ **Mandatory Provident Fund records**
- ◆ copy of identity proof of signatory on application form
- ◆ copy of BR Certificate of technology consultant
- ◆ **all issued quotation/tender invitation documents**
- ◆ copy of quotations for expenditure items

Vetting

- + TVP Committee to vet application according to the assessment criteria:**
- ◆ relevance to business of the applicant
 - ◆ reasonableness of budget and implementation details
 - ◆ adverse record of technology consultant and/or service provider(s)

Successful applicant to sign a **funding agreement** with ITC before project commencement

Project to be completed **within 12 months**, then submit **final project report**

Disburse funding



Further information on the TVP including the detailed application procedures and guidelines is available at <https://tvp.itf.gov.hk>.

Enquiry

Technology Voucher Programme Secretariat,
Innovation and Technology Commission,
Unit 1275, 12/F,
Kowloonbay International Trade and Exhibition Centre,
1 Trademart Drive, Kowloon Bay, Hong Kong
Tel : 3523 1170 Fax : 3523 1189 E-mail : tvp-enquiry@itc.gov.hk

Annex C

Completed Technology Voucher Programme Briefing Sessions

Date	Organiser	Target
5 December 2016	TecONE of Hong Kong Science Park (HKSP), Innovation and Technology Commission (ITC)	HKSP tenants, members of information and communications technology industry associations
14 December 2016	SME One of Hong Kong Productivity Council (HKPC), ITC	Small and medium enterprises (SMEs)
15 December 2016	Hong Kong General Chamber of Commerce (HKGCC)	HKGCC members
19 December 2016	The Hong Kong Federation of Youth Groups Jockey Club Social Innovation Centre	SMEs, information technology companies
10 January 2017	Chinese Manufacturers' Association of Hong Kong (CMA)	CMA members
11 January 2017	HKPC, ITC	Members of SMEs associations
18 January 2017	Federation of Hong Kong Industries (FHKI)	FHKI members
19 January 2017	Hong Kong Council for Testing and Certification	SMEs, testing and certification companies
13 February 2017	Trade and Industry Department, ITC	SMEs, members of computer industry associations, members of jewellery industry associations