

## **ITEM FOR FINANCE COMMITTEE**

**HEAD 152 - GOVERNMENT SECRETARIAT :  
COMMERCE AND ECONOMIC DEVELOPMENT  
BUREAU (COMMERCE, INDUSTRY AND TOURISM  
BRANCH)**

**Subhead 700 - General non-recurrent**

**New Item “Professional Services Advancement Support Scheme”**

Members are invited to approve a new commitment of \$200 million under Head 152 – Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch) for the setting up of the Professional Services Advancement Support Scheme.

### **PROBLEM**

In the face of opportunities and challenges arising from latest economic developments in Hong Kong and beyond, we see the need to assist our professional services sector in reaching out to existing and new markets proactively, and further improving its service offerings.

### **PROPOSAL**

2. The Secretary for Commerce and Economic Development (SCED) proposes to create a new commitment of \$200 million for setting up the Professional Services Advancement Support Scheme (PASS).

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**JUSTIFICATION**

3. The Government has been promoting the development of the professional services sector on various fronts, including improving market access of our service sectors to world economies through trade agreements and marketing our service providers outside Hong Kong through proactive promotion programmes. In the past, we have funded projects to enhance the standards and external competitiveness of the sector through the Professional Services Development Assistance Scheme (PSDAS) which was concluded in 2015. We see the need for the Government to continue supporting the professional services sector in their outreaching and enhancement efforts through a funding scheme, so as to assist the sector in tapping opportunities and meeting challenges ahead.

***Improving Market Access and Marketing***

4. Market access of our services sectors, including the professional services sector, is an integral part of free trade agreements (FTAs). Since 2013, Hong Kong has signed three FTAs with overseas economies covering Hong Kong's strategic markets in different parts of the world<sup>1</sup>. We would continue to expand our FTA network, and notably, intensive negotiations on the Hong Kong-Association of Southeast Asian Nations (ASEAN) FTA are underway and expected to be concluded within this year. Compared with traditional markets such as the Mainland (40% share in 2014) and the United States (15% share in 2014), there is much room for growth in the nearby ASEAN market as a destination for export of Hong Kong services (8% share in 2014, with an average annual growth rate of about 11% from 2009 to 2013).

5. As regards the Mainland market, the implementation and continuous enhancement of the Mainland and Hong Kong Closer Economic Partnership Agreement (CEPA) over the years have been a major thrust behind our services sectors in seeking growth and business outside Hong Kong. Hong Kong service suppliers enjoy preferential treatment in entering the Mainland market in most service areas. Professional bodies of Hong Kong and the regulatory authorities in the Mainland have signed a number of agreements or arrangements on mutual recognition of professional qualifications. The Agreement on Trade in Services under CEPA implemented on 1 June 2016 also extends services liberalisation

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<sup>1</sup> The relevant economies are New Zealand, Chile and the Member States of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland).

measures from Guangdong to the entire Mainland and adds new liberalisation measures across various sectors including the professional services sector<sup>2</sup>.

6. On the other hand, much external promotion work for our professional services is being undertaken, not least through the efforts of various government departments and professional bodies. For instance, the Department of Justice and relevant professional bodies such as the Hong Kong Bar Association, The Law Society of Hong Kong and the Hong Kong International Arbitration Centre are instrumental in promoting Hong Kong's legal and dispute resolution services in Hong Kong, the Mainland and overseas, highlighting Hong Kong's many advantages, notably the robust legal system and our observance of the rule of law. This helps positioning Hong Kong as a leading centre for dispute resolution in the Asia-Pacific region and supports our legal practitioners in seizing potential business opportunities in the mediation, arbitration and other areas of legal practice generated by the surge in regional trade and investment activities.

#### *Need for Enhancement and Outreaching Efforts*

7. Despite our strong fundamentals amidst abundant opportunities and continuous efforts to assist development of our professional services, our professional services sector still need to overcome challenges in exploiting existing markets and exploring and venturing into new ones which are, to different degree, unfamiliar in terms of language, culture, business environment, political scene, professional practice of counterparts, market needs, etc. The skillsets of our professionals may also need developments, refinements or adaptations otherwise to tailor to new demands.

8. To assist our professional services sector to tap the opportunities and meet the challenges ahead, we consider it essential to seek continued enhancements in professional standards and external competitiveness.

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<sup>2</sup> The Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong ("the Guangdong Agreement") was signed in 2014. On the basis of the Guangdong Agreement, the Agreement on Trade in Services further enhances the liberalisation in both breadth and depth, including extending the implementation of the majority of Guangdong pilot liberalisation measures to the whole Mainland; reducing the restrictive measures in the negative list; and adding a number of liberalisation measures in the positive lists for cross-border services as well as cultural and telecommunications services.

9. On the other hand, we consider it equally important to help the business communities and professional counterparts of our target markets to understand and appreciate our strengths, as a prelude to any concrete initiatives to seek service arrangements, collaborations and joint ventures. Exchanges and publicity are keys to facilitating mutual understanding.

## **THE SCHEME**

10. We propose setting up PASS to support the professional services sector to carry out worthwhile projects to spearhead pro-active outreaching promotion efforts and to improve service offerings. In devising PASS, we have made reference to the experience of PSDAS<sup>3</sup> which is a similar scheme for the professional services sector and feedback from consultations with stakeholders (paragraphs 32 to 33 below). Details of PASS are set out in the ensuing paragraphs.

### ***Project Scope and Eligibility***

11. PASS will provide funding support for non-profit-making projects aimed at increasing the exchanges and co-operation of Hong Kong's professional services with their counterparts in external markets and promoting relevant publicity activities. Projects which seek to enhance the standards and external competitiveness of professional services in Hong Kong will also be eligible. Activities relating to exchanges, co-operations and publicity are encouraged in particular. Projects should normally be completed within three years.

12. Non-profit-distributing<sup>4</sup> professional bodies, trade and industry organisations and research institutes, including statutory organisations, may apply for funding under PASS. The list of professional services sectors eligible for funding under PASS is at Enclosure 1. The list is largely the same as that under PSDAS (prepared with reference to the World Trade Organization's (WTO) classification, supplemented by Hong Kong Trade Development Council's classification to take into account local circumstances), with presentational adjustments in the light of latest views from stakeholders and member(s) of the Legislative Council Panel on Commerce and Industry (CI Panel).

Encl. 1

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<sup>3</sup> PSDAS, with an approved commitment of \$100 million, was set up in 2002 to enhance the standards and external competitiveness of Hong Kong's professional services sector. A total of 275 projects, involving 108 organisations, were completed by end 2015, benefiting about 440 000 participants. More details on PSDAS are found in paragraph 37.

<sup>4</sup> A non-profit distributing organisation is defined as an organisation which does not distribute profits to its directors, members, shareholders, employees or any other persons.

***Funding Arrangement***

13. We propose that each successful applicant be allowed to receive a maximum grant of up to 90% of the total eligible project cost, or \$3 million, whichever is lower. We suggest providing a higher percentage of government contribution under PASS as compared with the previous PSDAS (50% of project cost or \$2 million, whichever is lower), so as to encourage more participating organisations (especially those with lesser experience and means), to include projects of appropriate scale with considerable impact and to bring earlier results. Only direct costs incurred for the delivery of the projects will be funded by the grant. Other costs such as office overheads, entertainment etc. would not be covered.

14. The applicant will have to meet the remaining balance of the project cost through self-financing, third party sponsorship or income derived from the project. The applicant's contribution may be in cash or in kind. The requirement of contribution from the applicant will help ensure that the project is of genuine value to the professional services sector and to a certain extent reduce the risk of possible abuse. A mechanism will also be put in place to recoup excess grant amount, if any, paid by the Government.

15. To ensure no duplication of public funding for a project through different sources, PASS will not consider any project that has been funded or will be funded by other government sources.

***Application and Assessment***

16. A Vetting Committee (VC) will be appointed by SCED, and be chaired by a non-government official to consider and recommend on funding support for the applications. It will comprise members drawn from or are knowledgeable about the professional services sector, such as professionals, businessmen and academics, and will also include ex-officio member(s). As Controlling Officer, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) will have the final say over the use of funding under PASS, taking into account the advice of VC.

Encl. 2 17. The major criteria in the assessment of applications are at Enclosure 2 and will be considered by the VC for refinement and approval. The VC will vet the applications accordingly<sup>5</sup>. It may also exercise discretion and advise if exceptions (e.g. in relation to applicant/project eligibility, project period and allowable items) should be considered for individual projects with full justifications. The VC, with the support of the Secretariat, will also monitor approved projects. The arrangement would help secure the prudent use of public money while maintaining appropriate flexibility.

18. We will normally invite applications four times a year, and urgent applications may be considered if justified. We will also put in place appropriate measures (such as limiting the amount of grant and/or the number of applications per applicant per year) to avoid undue concentration of funded projects on a few organisations or bodies after consulting the VC.

19. We will seek the advice of the Independent Commission Against Corruption in working out the detailed criteria and procedures to be adopted, as well as requirements relating to declaration of interests and other matters related to the operation of PASS as appropriate.

### *Administration*

20. The Commerce, Industry and Tourism Branch of the Commerce and Economic Development Bureau (CEDB) will administer PASS and provide secretariat support to the VC.

### **EXPECTED BENEFITS**

21. We expect PASS will similarly benefit the professional services sector as a whole or as individual sectors as the earlier PSDAS. Through projects funded under PASS, the relevant professional services are expected to enhance their standards and external competitiveness, and explore and identify new expansion opportunities through exchange, co-operation and publicity events, paving the way for longer term and sustainable business development.

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<sup>5</sup> When vetting the applications, the VC will also consider the proportion of cost to be spent on the actual project deliverables, staff salaries and administrative support respectively.

22. The new PASS will be able to achieve its objectives through the following –

- (a) outreach and home visit activities, e.g. conferences, roadshows, promotional seminars and visits;
- (b) exchange programmes for professionals;
- (c) capacity-building programmes, e.g. workshops and training courses and expert briefings;
- (d) researches/studies, e.g. researches on the development potential of external markets; development of guidebooks and manuals on new international standards/standards of external markets; and
- (e) others, e.g. establishment of professional networks.

### **CONTROL AND REVIEW MECHANISM**

23. We will put in place an appropriate monitoring mechanism to ensure that applicants of funded projects are accountable for the proper and prudent use of public funds. Successful applicants will be required to sign an agreement prepared by the Government which lays down the terms and conditions of the grant, including those relating to intellectual property rights to ensure suitable dissemination of deliverables from PASS projects.

24. Government funding for approved projects will primarily be released on an instalment basis subject to the fulfilment of project milestones. Where warranted and having regard to VC's recommendation, the Controlling Officer may consider on an exceptional basis releasing government funding on a lump sum basis upfront for smaller-scale and shorter projects (e.g. those seeking government funding of less than \$300,000 and involving a duration of less than 18 months).

25. As pointed out in paragraphs 16 to 17, a VC will be appointed to consider funding applications and monitor approved projects. To facilitate monitoring and evaluation of approved projects, successful applicants will be required, among other things, to create a separate bank account, keep proper and separate books and records on each project for a specified period of time after project completion, as well as provide audited accounts of the project and submit succinct progress and post-event evaluation reports to the VC.

26. The VC, with the support of the Secretariat, will monitor progress and review the quality of each approved project. Site visits by VC members will be conducted as necessary.

27. For transparency purposes, application procedures and assessment criteria of PASS and information on funded projects will be uploaded onto the CEDB website and be made available to the public.

28. We plan to review the cost-effectiveness, funding principles and modus operandi of PASS two years after its commencement. We will report progress to and consult the CI Panel on proposed adjustments as appropriate.

### **FINANCIAL IMPLICATIONS**

29. The setting up of PASS will require a non-recurrent funding of \$200 million. It would be difficult to estimate the lifespan of the scheme. The actual cash flow and lifespan will depend on the number of applications to be received and approved. For budgetary planning, it is expected that the non-recurrent funding might sustain the operation of PASS up to around 2021-22 with an indicative cash flow requirement as follows –

<b>Financial Year</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>Total</b>
<b>(\$ million)</b>	20	40	40	40	40	20	200

30. The additional workload and cost of administering the PASS will be absorbed within the existing resources of CEDB.

### **IMPLEMENTATION TIMETABLE**

31. Subject to Members' approval of the funding proposal, we will commence the necessary preparatory work for the introduction of PASS, such as setting up the VC, refining the assessment criteria, preparing the application and project management guide and arranging publicity. We plan to launch PASS and start inviting applications in the fourth quarter of 2016.

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## PUBLIC CONSULTATION

32. We have been reaching out to major professional bodies and other stakeholders, of which many are PSDAS grantees, to exchange views on how best to make use of the new funding of \$200 million. A questionnaire has been sent to all PSDAS grantees to seek their views on the proposed PASS. We have taken into account their views in devising PASS.

33. The Working Group on Professional Services of the Economic Development Commission was consulted on the preliminary proposal of PASS on 10 June 2016. Members expressed appreciation of the past PSDAS and welcomed the PASS initiative, including enhancements<sup>6</sup> to past PSDAS arrangements. Some Members suggested that the eligibility requirements might be further relaxed to cover profit-making projects (i.e. profits to go back to the applicants) and applicants (namely private firms). We have critically examined the suggestions and consider it more appropriate to reserve government funding under PASS primarily for non-profit making projects and non-profit-distributing applicants.

34. We also consulted the CI Panel on 21 June 2016. The CI Panel supported the proposal, with suggestions relating to the list of eligible professional services sectors which we have taken into account as set out in paragraph 12 above.

## BACKGROUND

35. The services sector accounts for 93% of Hong Kong's Gross Domestic Product (GDP) and is the driving force of our economic growth. Our professional services is a high-value component of the services sector, in areas such as accounting, architecture, legal and dispute resolution, engineering, business consulting and information technology. In the past ten years, the professional services sector's contribution to GDP increased from 3.6% to 4.8% (representing a growth of more than 30%), and its average annual growth also outperformed that of other Key Industries<sup>7</sup>. According to the WTO, Hong Kong is the world's 14<sup>th</sup> largest exporter of commercial services<sup>8</sup>.

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<sup>6</sup> Enhancements including increasing the government funding cap (to \$3 million or 90% of project cost, whichever is lower).

<sup>7</sup> The Four Key Industries are financial services, tourism, trading and logistics, and professional services and other producer services (professional services and other producer services counted as one). They account for 57.5% of our GDP and 1.78 million of jobs in 2014. Between 2004 and 2014, the professional services experienced an average annual growth of 8.7%, outperforming financial services (8.1%), trading and logistics (3.8%) and other producer services (6.0%), and only after tourism (11.3%).

<sup>8</sup> In 2015 Hong Kong exported US\$135 billion worth of services, bearing a ratio of 43.9% to GDP.

36. Looking ahead, our professionals, highly regarded for their professional ethics, competence and global outlook, will continue to command a unique competitive advantage to tap the vast business opportunities arising from the sustained growth of trade and investment in different parts of the world. For example, Hong Kong's professional service providers, in such areas as engineering, architectural design, green and smart cities, surveying, project and facility management and waste treatment are well positioned to take advantage of the market demand arising from different infrastructure projects<sup>9</sup>. Similar opportunities lie in the Mainland's increasing urbanisation<sup>10</sup>.

37. In 2002, a \$100 million PSDAS was set up against a backdrop of opportunities brought by the opening up of the Mainland market following China's accession into the WTO in 2001, and challenges from the restructuring of the local economy.

38. PSDAS has been concluded in 2015 but the need for providing funding support to promote the development of the professional services sector remains. It was announced in the 2016 Policy Address that \$200 million would be allocated to support the professional services sector in enhancing exchanges and co-operation with the Belt and Road countries and other regions outside Hong Kong (including the Mainland) and promote related publicity activities.

39. The proposed PASS will be launched through a new non-recurrent commitment item under the General Revenue Account.

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Commerce and Economic Development Bureau  
June 2016

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<sup>9</sup> Examples of these projects include railways, highways, ports and power plants. According to an Asian Development Bank statistic, Asia will need US\$800 billion every year just to cover infrastructure investment needs from now to 2020.

<sup>10</sup> Some 100 million of rural population is expected to transfer and settle in urban areas by 2020.

**Enclosure 1 to FCR(2016-17)68**

**Professional Services Advancement Support Scheme  
Eligible Professional Services Sectors**

<b>World Trade Organization's Classification</b>	<b>United Nation's Definition</b>	<b>Census &amp; Statistics Department's Classification<sup>Note</sup></b>	<b>Professional Services Development Assistance Scheme</b>	<b>Professional Services Advancement Support Scheme</b>
<p><b><u>(i)Accounting-related services</u></b></p> <ul style="list-style-type: none"> <li>● Accounting, auditing and book-keeping services</li> <li>● Tax services</li> </ul>	<ul style="list-style-type: none"> <li>■ Legal and accounting activities</li> </ul>	<ul style="list-style-type: none"> <li>➤ Accounting and auditing services</li> </ul>	<p><b><u>(i)Accounting-related services</u></b></p> <ul style="list-style-type: none"> <li>✓ Accounting, including auditing, book-keeping and tax services</li> </ul>	<p><b><u>(i)Accounting-related services</u></b></p> <ul style="list-style-type: none"> <li>✓ Accounting, auditing, book-keeping and tax services</li> </ul>
<p><b><u>(ii)Legal services</u></b></p> <ul style="list-style-type: none"> <li>● Legal services</li> </ul>		<ul style="list-style-type: none"> <li>➤ Legal services</li> </ul>	<p><b><u>(ii)Legal services</u></b></p> <ul style="list-style-type: none"> <li>✓ Legal services, including arbitration and mediation</li> </ul>	<p><b><u>(ii)Legal services</u></b></p> <ul style="list-style-type: none"> <li>✓ Legal, arbitration and mediation services</li> </ul>
<p><b><u>(iii)Engineering and infrastructure-related services</u></b></p> <ul style="list-style-type: none"> <li>● Architectural services</li> <li>● Engineering services</li> <li>● Integrated engineering services</li> <li>● Urban planning and landscape architectural services</li> </ul>	<ul style="list-style-type: none"> <li>■ Architectural and engineering activities</li> <li>■ Technical testing and analysis</li> </ul>	<ul style="list-style-type: none"> <li>➤ Architecture and engineering activities</li> </ul>	<p><b><u>(iii) Engineering and infrastructure-related services</u></b></p> <ul style="list-style-type: none"> <li>✓ Architecture and landscape architecture</li> <li>✓ Building and construction</li> <li>✓ Engineering services including integrated engineering services</li> <li>✓ Planning</li> <li>✓ Project development and project finance</li> <li>✓ Real estate services (including agency services, facilities management and valuation and surveying)</li> <li>✓ Surveying</li> </ul>	<p><b><u>(iii)Building and construction-related services</u></b></p> <ul style="list-style-type: none"> <li>✓ Architecture and landscape architectural services</li> <li>✓ Engineering services</li> <li>✓ Integrated engineering services</li> <li>✓ Planning services</li> <li>✓ Project development and project finance services</li> <li>✓ Real estate services (including agency services, facilities management and valuation and surveying services)</li> <li>✓ Surveying services</li> </ul>

<sup>Note</sup> Census & Statistics Department defines professional services with reference to the Hong Kong Standard Industrial Classification (version 2.0).

World Trade Organization's Classification	United Nation's Definition	Census & Statistics Department's Classification <sup>Note</sup>	Professional Services Development Assistance Scheme	Professional Services Advancement Support Scheme
<p><b><u>(iv)Medical-related services</u></b></p> <ul style="list-style-type: none"> <li>● Medical and dental services</li> </ul>			<p><b><u>(iv)Medical-related services</u></b></p> <ul style="list-style-type: none"> <li>✓ Medical and dental (including Chinese medicine)</li> </ul>	<p><b><u>(iv)Health-related services</u></b></p> <ul style="list-style-type: none"> <li>✓ Medical, dental and Chinese medicine services</li> <li>✓ Services provided by midwives, nurses, physiotherapists and paramedical personnel</li> </ul>
<p><b><u>(v)Others</u></b></p> <ul style="list-style-type: none"> <li>● Veterinary services</li> <li>● Services provided by midwives, nurses, physiotherapists and para-medical personnel</li> </ul>	<ul style="list-style-type: none"> <li>■ Activities of head offices</li> <li>■ Management consultancy activities</li> <li>■ Scientific research and development</li> <li>■ Advertising and market research</li> <li>■ Other professional, scientific and technical activities</li> <li>■ Veterinary activities</li> </ul>	<ul style="list-style-type: none"> <li>➤ Technical testing and analysis</li> <li>➤ Management consultancy</li> <li>➤ Advertising</li> </ul>	<p><b><u>(v)Others</u></b></p> <ul style="list-style-type: none"> <li>✓ Veterinary services</li> <li>✓ Services provided by midwives, nurses, physiotherapists and paramedical personnel</li> <li>✓ Design (including graphic, product, interior and fashion design)</li> <li>✓ Business consultancy services (including human resource management consultancy services; management consultancy services; information technology consultancy (e.g. system integration services); financial consultancy services (e.g. advising on corporate finance), etc.)</li> <li>✓ Waste management and environmental consultancy services</li> </ul>	<p><b><u>(v)Others</u></b></p> <ul style="list-style-type: none"> <li>✓ Information and communications technology services</li> <li>✓ Company secretary services</li> <li>✓ Veterinary services</li> <li>✓ Design services (including graphic, product, interior and fashion design)</li> <li>✓ Business consultancy services (including human resource management consultancy services; management consultancy services; financial consultancy services, etc.)</li> <li>✓ Waste management and environmental consultancy services</li> <li>✓ Technical testing and analysis services</li> </ul>

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**Proposed Assessment Criteria for Vetting Applications under the Professional Services Advancement Support Scheme (PASS)<sup>Note</sup>**

Projects to be funded should be non-profit-making in nature. The major assessment criteria are as follows –

*Value of Project*

- (A) whether the project has the potential to help increase the exchanges and co-operation of Hong Kong's professional services with their counterparts in external markets, promote the relevant publicity activities, or enhance the standards and external competitiveness of the sector;
- (B) whether the result of the project is of practical use to the professional services concerned;
- (C) whether the project scope, objectives and long-term impacts are realistic and expressed in clear terms as appropriate in the application;

*Cost-effectiveness*

- (D) whether the project can benefit a good number of professionals in the professional services concerned or whether the project can benefit the society significantly through the professional services sector;
- (E) whether the cost of the project is broadly commensurate with the expected results;

*Project Implementation*

- (F) whether the applicant has sufficient project management capabilities, taking into account the applicant's experience, qualifications, track record and the resources available for the project;
- (G) whether the implementation schedule of the proposed project is properly planned, and whether major milestones are set in the project to facilitate future monitoring of progress and achievement of performance targets;
- (H) whether there are clearly stated outcome with specified performance indicators for assessing the attainment of project objectives;
- (I) whether the proposed budget is full, itemised, reasonable and realistic;

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<sup>Note</sup> Subject to endorsement by the Vetting Committee.

- (J) whether the project can be completed in three years. If not, the applicant should demonstrate the project's sustainability upon the cessation of funding support from PASS;
- (K) whether there is or will be any duplication in terms of work of other institutions or organisations;

*Other factors*

- (L) whether the project may be delivered by the applicant as part of its normal business activities without the funding support from PASS; and
- (M) in determining the level of funding support for a project, whether beneficiaries of the project can reasonably contribute to the cost of the project.

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