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Panel on Welfare Services

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 12 December 2011**

**Enhancing Employment of People with Disabilities
through Small Enterprise Project**

Purpose

This paper gives a brief account of the discussions held by the Panel on Welfare Services ("the Panel") on the Enhancing Employment of People with Disabilities through Small Enterprise Project ("the 3E's Project") and relevant discussions of other committees on employment opportunities for persons with disabilities.

Background

2. In the 2001-2002 Budget, the Financial Secretary announced a one-off provision of \$50 million for non-governmental organizations ("NGOs") to create employment opportunities for persons with disabilities. Through the payment of grants as seed money to NGOs, the 3E's Project was launched by the Social Welfare Department ("SWD") in 2001 to support the creation of small enterprises/businesses with employment of persons with disabilities.

3. All bona-fide charitable NGOs recognized under section 88 of the Inland Revenue Ordinance (Cap. 112) with at least five years active participation in welfare and charitable activities are eligible for application for the fund to set up businesses. With effect from 23 November 2006, the ratio of employees with disabilities for each business has been revised from not less than 60% to not less than 50% of the total number of

employees in each enterprise and a proper employer-employee relationship is required; and the funding period has been extended from a maximum of one year to two years, with a funding ceiling of \$2 million per business remains unchanged.

Deliberations of members

Proposal to launch the 3E's Project

4. At its meeting on 11 June 2001, the Panel was consulted on the funding proposal of creation of a new commitment of \$50 million for the launch of the 3E's Project to assist NGOs to create and run small businesses employing persons with disabilities. In support of the proposal to enhance employment of persons with disabilities, members expressed concern that \$50 million could only benefit a small number of people as the maximum amount of a grant to each business project was \$2 million.

5. In the view of the Administration, the 3E's Project would benefit quite a sizeable number of persons with disabilities through careful selection of NGOs to start up businesses. Specifically, Assessment Panels comprising businessmen, financial/accounting personnel, persons with disabilities and government officials would be formed to provide the necessary commercial, financial, professional and policy input in the assessment. In vetting the applications for the grant, the Assessment Panel would consider whether the proposed business was viable, whether the applicant had management capability including experience, qualification and past performance in business, and the extent of benefit to persons with disabilities. A ceiling of \$2 million per business would be provided to an NGO covering the cost of equipment, fitting-out works and the initial working capital for the procurement of stocks and payment of initial operating expenses (normally not exceeding 12 months) for the preparatory business or marketing team. The supported business was expected to be able to run on a self-financing basis.

6. According to the Administration, the modus operandi of businesses under the 3E's Project would help persons with disabilities enjoy genuine employment in a carefully planned and sympathetic working environment. It resolved the problem of continuous transition of persons with disabilities in different training and job settings and having difficulty in sustaining a job in the open market.

7. Some members were concerned about the support which SWD would render to the successful NGOs in running small businesses employing persons with disabilities, and measures in place to protect these employees from being exploited by their private sector employers.

8. The Administration advised that the supported business would be required to employ persons with disabilities for at least 60% of the total workforce in the business at any one time. SWD would inspect the business at any time, and follow through with these businesses for a period of at least three years with the operators submitting progress reports, business plans, financial reports and audited accounts as necessary. The business would be evaluated through indicators such as the number of persons with disabilities employed and the income of persons with disabilities engaged in the businesses.

9. Members were further advised that the Marketing Consultancy Office (Rehabilitation) ("MCO(R)") of SWD working under an Advisory Committee including persons with business experience and persons with disabilities, would be responsible for administering the Project. The profits made from these business projects should be used for enhancing the businesses or rehabilitation services or other welfare services run by the NGO concerned.

Employment opportunities for persons with disabilities

10. The Subcommittee to Study Issues Relating to the Provision of Boarding Places, Senior Secondary Education and Employment Opportunities for Children with Special Educational Needs formed in the Third Legislative Council had examined, among others, the Administration's supportive measures to create more employment opportunities for persons with disabilities and studied the effectiveness of these measures to enhance the employment of persons with disabilities. The relevant extract of the Subcommittee's report is in **Appendix I**. The Panel also discussed measures to promote employment opportunities and support measures for disabled persons to secure employment in the labour market. Members' views are summarized in paragraphs 11 to 16 below.

11. Members took the view that the Administration, as the largest employer in Hong Kong, should take the lead in participating in programmes aiming at creating and offering employment to persons with disabilities, rather than relying on NGOs and the private sector to do so.

Some members considered that the Government should set aside specific service contracts for awarding to NGOs employing persons with disabilities.

12. The Administration had stressed that government departments were very willing to hire persons with disabilities. Apart from this, government departments would endeavour to award tenders for procurement of services to NGOs employing persons with disabilities on the premises that the principle of open and fair competition would not be violated.

13. Some members raised the concern on whether the Administration would adopt restricted tenders to promote employment of persons with disabilities. The Administration advised that a number of NGOs had successfully bid for government service contracts through restricted tenders and set up small enterprises under the 3E's Project, including retail shops or refreshment kiosks in premises managed by government departments. Bureaux and departments had also been encouraged to award more service contracts to NGOs of the 3E's Project by restricted tenders and a list of NGOs participating in the 3E's Project had been issued to Directors of Bureaux and Heads of Departments for reference.

14. In the course of deliberations, members were given to understand from the Administration that as at the end of 2007, 45 enterprises of various natures had been set up by 20 NGOs under the 3E's projects, creating 537 employment opportunities of which 390 were tailored-made for persons with disabilities. As only \$24.8 million under the provision had been used in six years, members urged SWD to step up publicity to encourage the launch of more 3E's projects. Members also noted with disappointment that between 2004 and 2007, MCO(R) assisted in securing only 39 full-time and 17 part-time jobs for persons with disabilities, and the total amount of job orders and tender contracts secured for various rehabilitation services was \$39.41 million only. Members considered it necessary for MCO(R) to review expeditiously its work to identify room for improvement.

15. Some members were of the view that an employment quota might be implemented on a progressive basis, starting with Government bureaux and department, to be followed by Government subvented organizations, statutory bodies and then private enterprises.

16. The Administration had reservations about the introduction of a quota system as such a quota system had not been proven successful

overseas in helping persons with disabilities find jobs. The Administration reiterated its stance that the employment of persons with disabilities should be based on their work abilities and not their disabilities. Moreover, a large majority of companies in private sector were small and medium-sized enterprises. Imposing an employment quota on them would adversely affect their operation. The Government considered it more appropriate to promote the employment of persons with disabilities through encouragement and other measures such as priority procurement of products and using services of persons with disabilities. According to the Administration, in 2009, there were some 3 200 employees with disabilities in the civil service. A number of welfare organizations were supportive of the policy on employment of persons with disabilities. The ratio of employees with disabilities in the Tung Wah Group of Hospitals had increased from 1.64% to 2.01%. The Yan Chai Hospitals and the Pok Oi Hospital also aimed at increasing the number of employees with disabilities to about 2%.

Implementation of the 3E's Project

17. At the Panel meeting on 14 June 2010, members were updated that as at end of May 2010, some \$36 million had been granted under the 3E's Project to support the setting up of 61 small social enterprise projects, which had created about 500 employment opportunities for persons with disabilities. Apart from assisting NGOs in setting up social firms and small businesses, MCO(R) also organized marketing events and publicity activities to promote work abilities of persons with disabilities.

18. At the Panel meeting on 21 October 2011, members were further updated that as at March 2011, 66 businesses had been set up under the 3E's Project, creating over 520 job positions specifically for persons with disabilities.

Latest developments

19. As announced in the 2011-2012 Policy Address, the Government would inject \$100 million into the 3E's Project with a view to strengthening support for persons with disabilities in securing employment. The funding period of the Project will be extended from a maximum of two years to three years. The Administration will brief members on the funding proposal at the next regular meeting of the Panel on 12 December 2011.

Relevant papers

20. A list of the relevant papers on the Legislative Council website is in **Appendix II**.

Council Business Division 2
Legislative Council Secretariat
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Introduction

6.1 The Subcommittee has examined the pathways for students with SEN after leaving school and the adequacy of existing measures to help them to secure productive and gainful employment. Members understand that for some students, their disabilities make it difficult for them to follow the mainstream path, and they need to be assisted to achieve self-reliant as far as possible and be integrated into the community.

6.2 Members note that at present, VTC and SWD provide various vocational training and rehabilitation services for the disabled with different abilities. These include the Skills Centres, Integrated Vocational Training Centres, Sheltered Workshops, Supported Employment, and Integrated Vocational Rehabilitation Services Centres. The Selective Placement Division of the Labour Department (LD) provides personalized employment service to help place PWDs in open employment.

6.3 Members are of the view that many PWDs are able to be gainfully employed given sufficient support by the Administration and acceptance by the community. The implementation of supportive measures to create more employment opportunities for PWDs is of paramount importance. The Subcommittee has studied the effectiveness of various measures to enhance the employment of PWDs.

3E's projects

6.4 The Financial Secretary announced in the 2001-2002 Budget a one-off provision of \$50 million for NGOs to create employment opportunities for PWDs. The 3E's projects, i.e. *Enhancing Employment of People with Disabilities through Small Enterprise Projects*, are funded by the provision and run by SWD. Seed money is made available to NGOs to create small enterprises/businesses with a planned and sympathetic working environment to enable PWDs to enjoy genuine employment. The conditions are that the number of employees with disabilities should not be less than 50% of the total number of employees in each enterprise and a proper employer-employee relationship is required.

6.5 Members note that as at the end of 2007, 45 enterprises of various natures have been set up by 20 NGOs under the 3E's projects, creating 537 employment opportunities of which 390 were tailored-made for PWDs. These businesses include cleaning, catering, car beauty, mobile massage, retail shops, vegetable supply and processing, household service, travel agency, etc. As only \$24.8 million under the provision has been used in six years, members urge SWD to step up publicity to encourage the launch of more 3E's projects.

Marketing Consultancy Office (Rehabilitation)

6.6 The Marketing Consultancy Office (Rehabilitation) (MCO(R)) was set up by SWD with the objective to enhance employment and training opportunities for PWDs through innovative, effective and efficient business development and marketing approaches. MCO(R) assists NGOs in setting up social enterprises and small businesses under the 3E's projects, promotes the products produced and services provided by PWDs, and coordinates NGOs to secure job orders.

6.7 Members note with disappointment that between 2004 and 2007, MCO(R) assisted in securing only 39 full-time and 17 part-time jobs for PWDs, and the total amount of job orders and tender contracts secured for various rehabilitation services was \$39.41 million only. Members consider it necessary for MCO(R) to review expeditiously its work to identify room for improvement.

Social enterprises

6.8 Social enterprises are businesses with the social objective to create direct training and employment opportunities for PWDs. The surplus generated by these enterprises will be reinvested for the furtherance of the employment and training of PWDs. Notwithstanding the pledge of the Financial Secretary in the 2006-2007 Budget Speech to further assist the development of social enterprises by facilitating their participation in tenders of Government contracts, only six service contracts with a total contract sum of \$660,110 were offered by Government departments to social enterprises through MCO(R) in 2006-2007; the details are in **Appendix XI**.

6.9 Members are of the view that the Administration should take the lead in employing PWDs to set a good example for NGOs, public bodies and private enterprises. The small number of service contracts offered by Government departments to social enterprises through MCO(R) does not accord with its proclaimed policy to promote social enterprises. As the Financial Services and the Treasury Bureau is responsible for formulating policies and devising guidelines for the procurement of services by Government departments, the Subcommittee has put forward its proposal to the Secretary for Financial Services and the Treasury for setting a minimum percentage or amount of services procured by individual Government departments to social enterprises by restricted tender.

6.10 In his reply to the Subcommittee, the Secretary for Financial Services and the Treasury has stated that the Government procurement policy is that procurement should premise on the principles of fair and open competition, value for money, transparency and public accountability. The current Government procurement system has already allowed the flexibility for bureaux and departments to procure services from NGOs employing PWDs through restricted tender. For example, the Leisure and Cultural Services Department has reserved

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refreshment/catering outlets in nine venues for this purpose and 36 rehabilitation NGOs are on SWD's predetermined list. EDB and Home Affairs Department have each offered a similar venue for restricted tender by those 36 rehabilitation NGOs. The Marking Schemes of some service contracts will award additional marks to tenderers employing more PWDs. Given the diversity of services/products procured by the Government, it would not be practicable or appropriate for the Financial Services and the Treasury Bureau to require all bureaux/departments to set aside a certain percentage or amount of their services for NGOs or social enterprises employing PWDs.

Tax incentives

6.11 To encourage the employment of PWDs by the private sector, some deputations have suggested the provision of tax incentives. Members have requested the Administration to examine the viability of introducing tax incentives as a positive encouragement measure for promoting the employment of PWDs. In the view of the Administration, under the existing provisions of the Inland Revenue Ordinance (Cap. 112), all costs related to the employment of staff (for both PWDs and able-bodied people) are already deductible in ascertaining the employer's assessable profits. Any enhanced tax deduction for the employment of PWDs would be against the basic taxation principle. Given Hong Kong's low-tax regime, the tax savings provided by such tax concessions are unlikely to be significant.

Employment indicators

6.12 The Subcommittee considers that being the largest employer in Hong Kong, the Administration should take the lead in employing PWDs to help them integrate into the community. However, as at 31 March 2007, there were only 3 263 disabled civil servants, representing around 2.1% of the strength of the civil service. The number of PWDs employed on non-civil service terms was 310.

6.13 Members consider the employment of PWDs by Government subvented organizations (GSOs) and statutory bodies even more disappointing. Since May 2003, LWB had mobilized all relevant policy bureaux to encourage over 360 GSOs and statutory bodies to formulate a recruitment policy and an employment indicator for PWDs and to announce the number of PWDs employed in their annual reports. Tracking surveys were conducted to follow up the above efforts, and the latest one in December 2007 covered a total of 272 GSOs and statutory bodies. A total of 201 replies were received. Only 64 organizations (32%) had formulated policies and procedures regarding employment of PWDs; 13 organizations (6%) had set up an employment indicator of 2% on average; and 17 organizations (8%) had announced the numbers of PWDs employed in their annual reports.

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6.14 To rectify the unsatisfactory situation, members have suggested that each GSO should set a target of having 2% disabled employees in three years' time, failing which GSOs would have to bear the consequence of a reduced subvention.

6.15 The Rehabilitation Advisory Committee and its Subcommittee on Employment had discussed the Subcommittee's suggestion. In their view, imposing punishment on GSOs for failing to meet the target of employing PWDs, especially through reduction of their subvention, was not an appropriate measure for achieving the purpose of employing more PWDs. Reduced subvention will only affect the quality and quantity of their services provided to users including PWDs.

6.16 To address the concern about reduced subvention, members have proposed an alternative of withholding 2% of the annual subvention for GSOs and statutory bodies with 50 or more employees until they have achieved the employment target of having 2% of disabled employees. For GSOs and statutory bodies with less than 50 employees, they should be required to use 2% of their annual subvention for procuring the services from PWDs.

6.17 The Subcommittee on Employment of the Rehabilitation Advisory Committee discussed the Subcommittee's alternative proposal at its meeting on 18 April 2008. Again, members of the Subcommittee on Employment consider the alternative proposal not a positive and appropriate measure for achieving the purpose of promoting the employment of PWDs. In their view, should the alternative proposal be adopted, PWDs will be perceived as a liability, making them difficult to be accepted by their peers at work. They have suggested instead that positive encouragement measures, such as giving recognition to good employers and sharing of good practice, will be more effective in promoting the employment of PWDs in GSOs and statutory bodies.

6.18 Given the disappointingly few number of GSOs and statutory bodies which have formulated policies and procedures regarding the employment of PWDs and set up an employment indicator, members are of the view that the names of the GSOs and statutory bodies covered in the tracking surveys conducted by LWB and their responses or lack of responses should be made public. This will be a positive measure to give due recognition to those GSOs and statutory bodies which have taken actions to promote the employment opportunities for PWDs, and at the same time, create deterrent effect on those which have refused to take measures on a voluntary basis in this regard.

Employment quota

6.19 Some members of the Subcommittee are of the view that an employment quota for PWDs by legislation may need to be considered should the implementation of employment indicators on a voluntary basis fail to achieve the intended purpose. An employment quota should be implemented on a progressive basis, starting with Government bureaux and departments, to be followed by GSOs, statutory bodies and then private enterprises. There is a suggestion that each set-up with every 50 employees should employ two PWDs under the employment quota system.

6.20 The Administration has reservations about the introduction of a quota system. According to the Administration, such a quota system has not been proven successful overseas in helping PWDs find jobs. For example, the United Kingdom had abolished its quota system after reviewing its effectiveness. Under a mandatory employment system, PWDs will be perceived as a liability, making them difficult to be accepted by their peers at work. PWDs should be helped to find appropriate jobs on the basis of their abilities rather than disabilities. Moreover, a large majority of companies in the private sector are small and medium-sized enterprises. Imposing an employment quota on them will adversely affect their operation. If they were to be exempted, then a quota system could hardly achieve the desired outcome.

Chapter VII - Recommendations

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Recommendations

Employment opportunities

- (38) take the lead in encouraging Government departments, GSOs and statutory bodies to employ PWDs;
- (39) consider setting a certain percentage or amount of services procured by policy bureaux and Government departments from social enterprises employing PWDs by restricted tender;
- (40) explore feasible options for providing tax incentives to encourage the employment of PWDs by private organizations;
- (41) require GSOs and statutory bodies to set an employment target of having 2% of disabled employees which should be reached by phases;
- (42) publish the names of GSOs and statutory bodies which have and have not met the employment target;
- (43) publish the unemployment rate of PWDs at regular intervals to reflect the effectiveness of the various measures to support PWDs in seeking employment;
- (44) strengthen the support for PWDs in seeking open employment, such as by increasing the diversity of job types for and extending the time for retaining the personal files on PWDs registered with the Selective Placement Division of LD, providing courses in the Skills Centres of VTC to tie in with the manpower market, and reinstating the Youth Ambassador Scheme to provide opportunities for enhancing the skills of participants for open employment;
- (45) reinforce public education on the abilities and employability of PWDs; and
- (46) consider establishing an inter-departmental team to coordinate and oversee vocational training for PWDs.

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**Relevant papers on
Enhancing Employment of People with Disabilities
through Small Enterprise Project**

Committee	Date of meeting	Paper
Panel on Welfare Services	11 June 2001 (Item V)	Agenda Minutes
Finance Committee	22 June 2001	Minutes FCR(2001-02)16
Panel on Welfare Services	6 July 2006* (Item II)	Agenda Minutes
Finance Committee	2 April 2008	Administration's replies to members' written questions in examining the Estimates of Expense 2008-2009
Subcommittee to Study Issues Relating to the Provision of Boarding Places, Senior Secondary Education and Employment Opportunities for Children with Special Educational Needs	-	Report of the Subcommittee to the House Committee
Panel on Manpower	26 April 2010 (Item III)	Agenda Minutes
Panel on Welfare Services	14 June 2010 (Item IV)	Agenda Minutes
Panel on Welfare Services	21 October 2011 (Item I)	Agenda

* *Joint meeting with the Panel on Manpower*