

World Bank's study report on "Doing business 2008"

Introduction

World Bank released its annual "Doing Business 2008" report on 26 September 2007. This paper provides an overview of Hong Kong's performance in the current round of study, a summary of local press coverage on the study, and the Administration's observations on Hong Kong's ratings.

Overview

2. Some salient points of the report are summed up below –
 - World Bank has compiled an ease of doing business index to track the number of regulatory procedures as well as the time and cost required for business firms to comply with different sets of government regulations across the globe. The overall index has ten constituent business environment indicators (methodology summarised at **Annex I**).
 - A total of 178 economies are included in the current round of ranking exercise.
 - The top performers in doing business are, in order, Singapore, New Zealand and the United States (summary table on global ranking at **Annex II**). Hong Kong ranks 4th overall, up from 5th position last year. A breakdown of ranking by component for Hong Kong is at **Annex III**.
 - Hong Kong is among the world's top ranked economies in categories including ease of *enforcing contracts* (1st), *getting credit* (2nd), *protecting investors* (3rd), *paying taxes* (3rd) and *trading across borders* (3rd).
 - Hong Kong has marginal improvements in *dealing with licenses* (60th) and *registering property* (58th), as compared to the respective rankings of 61st and 59th in the last round of study.

- Over time, World Bank has refined its methodology. In the current round of study, there is methodology change in *dealing with licenses, employing workers* and *enforcing contracts*.

Press coverage

3. Hong Kong's rating in this World Bank report was covered in a number of local newspapers. In general, while many news stories recognise Hong Kong's high overall ranking, there are concerns on Hong Kong's individual ratings in the following areas –

- (i) *Dealing with licenses* – Hong Kong requires 23 different procedures, one more than a year ago, albeit the reduction of time needed to obtain business licenses from 160 to 155 days.
- (ii) *Enforcing contracts* – Hong Kong takes 24 different procedures, up from 16 (even though Hong Kong ranks the 1st in this indicator).
- (iii) *Registering property* – Hong Kong takes almost twice as long it does on the mainland – 54 days against 29 days for the mainland.
- (iv) *Starting a business* – Hong Kong's ranking slips from 5 to 13, though the number of procedures and time taken remains unchanged.

The Administration's observations

General

4. The Report's ranking is based on 10 indicators on business regulations only, which do not reflect other areas that are important to business, such as proximity to large markets, macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, crime rates and security of property, transparency of government procurement, underlying strength of institutions, etc.

5. The Administration has the following observations on Hong Kong's ratings –

(i) *Dealing with licenses*

- The “dealing with licence” indicator measures all procedures required for a business in the construction industry to build a standardised warehouse. It is questionable whether the construction of a warehouse is a representative business operation for a highly service-oriented economy like Hong Kong.
- Hong Kong stands at 60th in this indicator in the current report, as against 61st in the last study. 23 procedures and 155 days were involved in the current study, as against 22 procedures and 160 days in the last study.
- The increase in one procedure is due to a slight change in methodology adopted by the Report.
- We have set up a Working Group with representatives from Bureaux/Departments concerned to explore possible ways to reduce the time and procedures involved in building a warehouse.
- Bureaux/departments are making steady progress on various fronts in improving their licensing work under the “Be the Smart Regulator” Programme, and will continue to implement improvement initiatives with vigour.

(ii) *Enforcing contracts*

- The increase of procedures from 16 to 24 is due to the change in the Report’s methodology. In fact, World Bank has retrospectively changed the number of procedure for last year to 24.
- Despite the increase of procedures counted in the Report, Hong Kong’s ranking jumped from 10 to 1, for 2008 as well as 2007.

(iii) *Registering property*

- The deeds registration system now in use in Hong Kong requires examination of deeds by solicitors, which is relatively more time-consuming. Of the 54 days to register property in Hong Kong as quoted in the Report, 42 days are for solicitors to carry out various procedures and 12 days are for Government offices.

- For registration procedures directly under the control of public agencies, Hong Kong compares favourably with other economies in terms of the speed, accessibility and cost of the services provided.
- The Administration is working to replace the current registration system with a more effective system of title registration, similar to that in most other common law jurisdictions. The Administration will introduce legislation for the title registration system into the Legislative Council, and develop IT systems and practices to further speed up registration processes.

(iv) Starting a business

- Since the first survey in 2003, there has been no change to the number of procedures or days it takes to set up a business in Hong Kong – five procedures and 11 days.
- The slip in rating is due to the improving performance of other economies.
- The Administration will continue to look out for opportunities to see if there is room for improvement.

Way Forward

6. Members are invited to note the paper for information. Details of the study can be accessed through the web site of the World Bank via the following links –

Doing Business website:
<http://www.doingbusiness.org>

Coverage on HK:
<http://www.doingbusiness.org/ExploreEconomies/?economyid=43>

Methodology of the World Bank Report

- In the World Bank report, the ten business indicators/topics adopted to measure government regulation and their effect on businesses, especially on small to medium-sized domestic firms, are summarised below:

<u>Topics covered</u>	<u>What does each of these ten topics measure?</u>
(1) Starting a business	All generic procedures that are officially required for an entrepreneur to start up an individual or commercial business (include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions with relevant authorities).
(2) Dealing with licenses	All procedures required for a business in the construction industry to build a standardised warehouse (include obtaining all necessary licenses and permits, completing all required notifications and inspections, and submitting the relevant documents to the authorities), as well as procedures for obtaining utility connections (e.g. electricity, telephone, water and sewerage).
(3) Employing workers	The statutory regulation of employment, specifically hiring and firing of workers and rigidity of working hours.
(4) Registering property	All necessary procedures when a business purchases land and a building to transfer the property title from the seller to the buyer.
(5) Getting credit	The legal rights of lenders and credit information sharing (how well collateral and bankruptcy laws facilitate lending; and the coverage, scope, quality and accessibility of credit information available through public and private credit registries).
(6) Protecting investors	The strength of minority shareholder protections against directors' misuse of corporate assets for personal gain (including transparency of transactions, liability for self-dealing, as well as shareholders' ability to sue officers, and directors for misconduct).
(7) Paying taxes	The tax that a medium-size company must pay or withhold in a given year, and the measures of administrative burden in paying taxes.
(8) Trading across borders	Procedural requirements for exporting and importing a standardised cargo of goods (from the contractual agreement between the two parties to the delivery of goods along with the time necessary for completion).
(9) Enforcing contracts	The efficiency of the judicial system in resolving a commercial dispute.
(10) Closing a business	The time, cost and outcomes of bankruptcy proceedings involving domestic entities.

Ranking of ease of doing business for 2008
(out of the 178 economies studied)

Economy	Ranking for 2008[^]	Ranking for 2007*
Singapore	1	1
New Zealand	2	2
United States	3	3
Hong Kong	4	5
Denmark	5	7
United Kingdom	6	6
Canada	7	4
Ireland	8	10
Australia	9	8
Iceland	10	12
Norway	11	9
Japan	12	11
Finland	13	14
Sweden	14	13
Thailand	15	18
Switzerland	16	15
Estonia	17	17
Georgia	18	37
Belgium	19	20
Germany	20	21
China	83	93

Notes: (^) Ranking amongst 178 economies for the current round of study.

(*) Ranking amongst 175 economies for the last round of study.

**Ranking of Hong Kong in the ten constituent business topics
of doing business amongst 178 economies for 2008**

	Business topics	Global ranking for 2008	Number of licensing procedures	Number of days in licensing	Monetary cost incurred*
I	Starting a business	13	5	11	3.1
II	Dealing with licenses	60	23	155	21.3
III	Employing workers	23	N.A.	N.A.	N.A.
IV	Registering property	58	5	54	5.0 [#]
V	Getting credit	2	N.A.	N.A.	N.A.
VI	Protecting investors	3	N.A.	N.A.	N.A.
VII	Paying taxes	3	N.A.	N.A.	N.A.
VIII	Trading across borders	3	N.A.	N.A.	N.A.
IX	Enforcing contracts	1	24	211	14.5 ⁺
X	Closing a business	15	N.A.	N.A.	N.A.
	Overall index	4	-	-	-

Notes : (*) As a % of per capita gross national income, which stands at US\$28,460.

(#) As a % of property value.

(+) As a % of claim.

N.A. Not applicable, as other indicators are used in ranking.