

(For information)

EEC Paper IN 4/05

World Bank's study report on "Doing Business in 2006"

Introduction

At the seventh EEC meeting held on 5 October 2005, Members discussed Hong Kong's rankings in the World Bank's (WB) report on "Doing Business in 2006" and noted that although Hong Kong still took up a leading position in terms of friendliness of business environment with a seventh overall ranking out of 155 economies, it was ranked 77th and 70th in the components of "dealing with licenses" and "registering property" respectively, and these were the main areas accounting for the slippage in Hong Kong's overall ranking from 4th to 7th place.

2. Members were informed that the Government would actively study the report with a view to clarifying with the WB some of the more significant discrepancies discovered in its source data, based on which Hong Kong's rankings were assessed. The Government would also highlight to the WB its concern that the use of warehouse building in its assessment could not properly reflect the overall environment for doing business in Hong Kong.

3. It was agreed that the secretariat would provide more details on the WB rankings, the discrepancies discovered and the outcome of the deliberations with WB in due course for Members' information.

Summary of ranking details and follow-up actions

..... 4. **Annex** is a summary of the WB rankings, the discrepancies discovered and the progress on the deliberations with the WB so far for Members' information.

Economic and Employment Council Secretariat
December 2005

**Summary of Follow-up Actions on
the World Bank's study report on
"Doing Business in 2006"**

Background

- The World Bank released on 13 September 2005 its annual report on "Doing Business in 2006". An ease of doing business index is compiled to measure government regulation, the protection of property rights and their effect on businesses. The overall index has ten constituent business environment indicators, and a total of 155 economies are included in the current round of ranking exercise (methodology summarised at **Annex I**).
- New Zealand, Singapore and the United States have the most business-friendly regulations across the globe in the current exercise. Hong Kong is also ranked high, at 7th, in the current round, though slightly down from the 4th position in the last round (summary table on global ranking at **Annex II**).
- The modest slip in Hong Kong's ranking this year is mainly attributable to the addition of three new components, one of which (namely *dealing with licenses*) is heavily against Hong Kong's favour. This, coupled with a continuing lacklustre position in *property registration*, has a noticeable effect of dragging down the overall ranking for Hong Kong (breakdown of ranking by component for Hong Kong at **Annex III**).
- Yet Hong Kong performs well for most of the other eight business regulation components. As an illustration, Hong Kong is ranked amongst the top three economies in *hiring and firing workers*, *getting financial credits* and *paying taxes*, and ranked in the top six in *protecting investors* and *starting business*.

Follow-up actions

- To a considerable extent, the study findings re-affirm Hong Kong's leading position in terms of friendliness of business environment. Hong Kong is ranked the top seven out of 155 economies (*top two in Asia*) overall, and top six in half of the 10 constituent components.
- Yet there are certain problematic or ambiguous areas in World Bank's ranking exercise, which could have dragged down the overall ranking for Hong Kong. For instance, *dealing with licenses* is a new component in this exercise, in which Hong Kong is ranked only 77th. The lengthy procedures (22 steps) and long lead time (230 days) are identified for construction of a warehouse which was chosen by the World Bank as a typical business licensing procedure. This compares with those of 14 steps and 150 days for the same construction project in OECD¹ economies.
 - After analyzing the source data for the lengthy procedures and long lead time, we found that some data are factually incorrect and some procedures are unnecessarily included (e.g. the World Bank considers it necessary to get planning permission for the warehouse project, a single step taking 60 days. In fact, the procedure is not required for building a warehouse that has met the zoning requirement).
 - Furthermore, it is questionable whether the construction of a warehouse is a representative business operation for a highly service-oriented economy like Hong Kong. Contrary to World Bank's contention, construction is *not* "amongst the largest sectors in every economy", at least not for Hong Kong. For a service-based economy like Hong Kong, almost 90% of our GDP are derived from services, and the construction sector takes up about 4% only.

¹ The OECD stands for the Organisation for Economic Co-operation and Development. Out of the 30 member countries, the World Bank groups 22 high-income economies to produce figures for comparison. Examples of these economies are Australia, Canada, Japan, Korea, the UK and the US.

- Hong Kong is ranked 70th in another component *registering property*, requiring 5 procedural steps and 83 days in the transferral of property titles. This compares with the average of 4 steps and 33 days for OECD economies.
- The World Bank arrived at the current figures of 5 procedures and 83 days based on input from a solicitor firm in Hong Kong.
- A detailed examination into the source data reveals that out of 83 days, the total duration involving interactions with government agencies (namely the Land Registry and Inland Revenue Department) is only 21 days. The balance of 62 days rests with the buyer, seller and their solicitors. For example, the longest step taking 60 days is for the solicitor firm to study the title deeds and rectify any title problems, and for the buyer to arrange financing.
- According to the report, New Zealand, the top performer in property registration, takes only 2 days and 2 steps. However, it is our understanding² that even the New Zealand Registrar had said that the World Bank Report gave a very simplistic view of New Zealand, ignoring the work that would be done by purchasers and their solicitors after a decision to purchase and before matters were submitted for registration.
- Similar observations apply to other top performers such as Lithuania and Sweden. We have queries on the basis of comparison and are seeking clarification from the World Bank.

² Information based on the Land Registrar who met with the New Zealand Registrar at their annual meeting of the Australasian Group of Land Registrars in Wellington in October 2005.

Way forward

- We are currently seeking clarifications from the World Bank on the doubtful areas identified and have presented the correct set of data for their consideration. The process is still underway. We will continue to work closely with the World Bank to make sure that correct data are used for future reports.

Economic Analysis and Business Facilitation Unit,
Financial Secretary's Office
December 2005

Methodology of the World Bank Report

- The World Bank's doing business indicators measure government regulation and their effect on businesses, especially on small to medium-sized domestic firms. The number of constituent components or business topics covered in the dataset is increased from seven in the 2005-round to ten in 2006-round, as 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) Hiring and firing workers	The statutory regulation of employment, specifically hiring and firing of workers, rigidity of working hours and social security payments by employers and pension benefits.
(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 (include 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 (or administrative) system in the collection of overdue debt.
(10) Closing a business	The time and cost of bankruptcy proceedings involving domestic entities.

Note : (*) New business topics added to the 2006-round.

- As from 2005, the data set covers every economy with a population exceeding 1.5 million, as far as possible. In the current round, the data set covers 155 economies, with 22 high-income OECD economies as benchmarks.
- The various indicators under the Doing Business database are collected by three principal methods: (1) study of the existing laws and regulations in each economy; (2) targeted interviews with regulators or private sector professionals in each topic; and (3) cooperative arrangements with other departments of the World Bank, other donor agencies, private consulting firms, business and law associations. A set of templates or questionnaires on business environment is used for collecting information.
- The World Bank's Doing Business database aims to provide a set of objective, quantifiable measures of business regulations and their enforcement, and identify the specific nature of regulatory reforms required to improve business environment. Viewed in this context, it differs from ranking reports by other major international organisations, which tend to rely more on business perceptions surveys and analysts' assessments (e.g. World Economic Forum's World Competitiveness Report, Fraser Institute's/Cato Institute's Economic Freedom of the World).

Ranking of ease of doing business for 2006

(out of the 155 economies studied)

Economy	Ranking for 2006	Ranking for 2005*
New Zealand	1	1
Singapore	2	3
United States	3	2
Canada	4	8
Norway	5	6
Australia	6	5
Hong Kong	7	4
Denmark	8	12
United Kingdom	9	7
Japan	10	10
Ireland	11	15
Iceland	12	-
Finland	13	14
Sweden	14	9
Lithuania	15	17
Estonia	16	-
Switzerland	17	11
Belgium	18	16
Germany	19	-
Thailand	20	20
 China	 91	 -

Notes: () Ranking amongst 145 economies for the 2005-round of exercise.*

(-) Overall ranking not shown in the 2005-round report.

**Ranking of Hong Kong in the ten constituent business topics
of doing business amongst 155 economies for 2006**

	Business topics	Global ranking for 2006	Number of licensing procedures	Number of days in licensing	Monetary cost incurred*
I	Starting a business	6	5	11	3.4
II	Dealing with licences	77	22	230	38.5
III	Hiring and firing workers	3	N.A.	N.A.	N.A.
IV	Registering property	70	5	83	5.0 [#]
V	Getting credit	2	N.A.	N.A.	N.A.
VI	Protecting investors	4	N.A.	N.A.	N.A.
VII	Paying taxes	2	N.A.	N.A.	N.A.
VIII	Trading across borders	26	N.A.	N.A.	N.A.
IX	Enforcing contracts	16	16	211	12.9 ⁺
X	Closing a business	14	N.A.	N.A.	N.A.
	<u>Overall index</u>	7	-	-	-

Notes : () As a % of per capita gross national income, which stands at US\$26,810.*

(#) As a % of property value.

(+) As a % of debt.

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