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A World Bank Group Flagship Report

13TH EDITION

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# Doing Business 2016

## Measuring Regulatory Quality and Efficiency

## Economy Profile 2016

## Hong Kong SAR, China

COMPARING BUSINESS REGULATION FOR DOMESTIC FIRMS IN 189 ECONOMIES

WORLD BANK GROUP

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# INTRODUCTION

*Doing Business* sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulation. *Doing Business 2016* presents the data for the labor market regulation indicators in an annex. The report does not present rankings of economies on labor market regulation indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business.

In a series of annual reports *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 189 economies, from Afghanistan to Zimbabwe, over time. The data set covers 47 economies in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 25 in East Asia and the Pacific, 25 in Eastern Europe and Central Asia, 20 in the Middle East and North Africa and 8 in South Asia, as well as 32 OECD high-income economies. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

This economy profile presents the *Doing Business* indicators for Hong Kong SAR, China. To allow useful comparison, it also provides data for other selected economies (comparator economies) for each indicator. The data in this report are current as of June 1, 2015 (except for the paying taxes indicators, which cover the period January–December 2014).

The *Doing Business* methodology has limitations. Other areas important to business—such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not directly studied by *Doing Business*. The indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. The data not only highlight the extent of obstacles to doing business; they also help identify the source of those obstacles, supporting policy makers in designing regulatory reform.

More information is available in the full report. *Doing Business 2016* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2016*, are available on the *Doing Business* website at http://www.doingbusiness.org.

## CHANGES IN *DOING BUSINESS 2016*

As part of a two-year update in methodology, *Doing Business 2016* expands the focus of five indicator sets (dealing with construction permits, getting electricity, registering property, enforcing contracts and labor market regulation), substantially revises the methodology for one indicator set (trading across borders) and implements small updates to the methodology for another (protecting minority investors).

The indicators on dealing with construction permits now include an index of the quality of building regulation and its implementation. The getting electricity indicators now include a measure of the price of electricity consumption and an index of the reliability of electricity supply and transparency of tariffs. Starting this year, the registering property indicators include an index of the quality of the land administration system in each economy in addition to the indicators on the number of procedures and the time and cost to transfer property. And for enforcing contracts an index of the quality and efficiency of judicial processes has been added while the indicator on the number of procedures to enforce a contract has been dropped.

The scope of the labor market regulation indicator set has also been expanded, to include more areas capturing aspects of job quality. The labor market regulation indicators continue to be excluded from the aggregate distance to frontier score and ranking on the ease of doing business.

The case study underlying the trading across borders indicators has been changed to increase its relevance. For each economy the export product and partner are now determined on the basis of the economy's comparative advantage, the import product is auto parts, and the import partner is selected on the basis of which economy has the highest trade value in that product. The indicators continue to measure the time and cost to export and import.

Beyond these changes there is one other update in methodology, for the protecting minority investors indicators. A few points for the extent of shareholder governance index have been fine-tuned, and the index now also measures aspects of the regulations applicable to limited companies rather than privately held joint stock companies.

For more details on the changes, see the "What is changing in *Doing Business*?" chapter starting on page 27 of the *Doing Business 2016* report. For more details on the data and methodology, please see the "Data Notes" chapter starting on page 119 of the *Doing Business 2016* report. For more details on the distance to frontier metric, please see the "Distance to frontier and ease of doing business ranking" chapter in this profile.

# THE BUSINESS ENVIRONMENT

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies. *Doing Business* provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 189 by the ease of doing business ranking. *Doing Business* presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to two decimals. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. (See the chapter on the distance to frontier and ease of doing business).

The ease of doing business ranking compares economies with one another; the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each *Doing Business* indicator. When compared across years, the distance to frontier score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies.

The 10 topics included in the ranking in *Doing Business 2016*: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The labor market regulation indicators are not included in this year's aggregate ease of doing business ranking, but the data are presented in the economy profile.

**ECONOMY OVERVIEW**

Region: East Asia & Pacific

Income category: High income

Population: 7,241,700

GNI per capita (US$): 40,320

DB2016 rank: 5

DB2015 rank: 5*

Change in rank: 0

DB 2016 DTF: 83.67

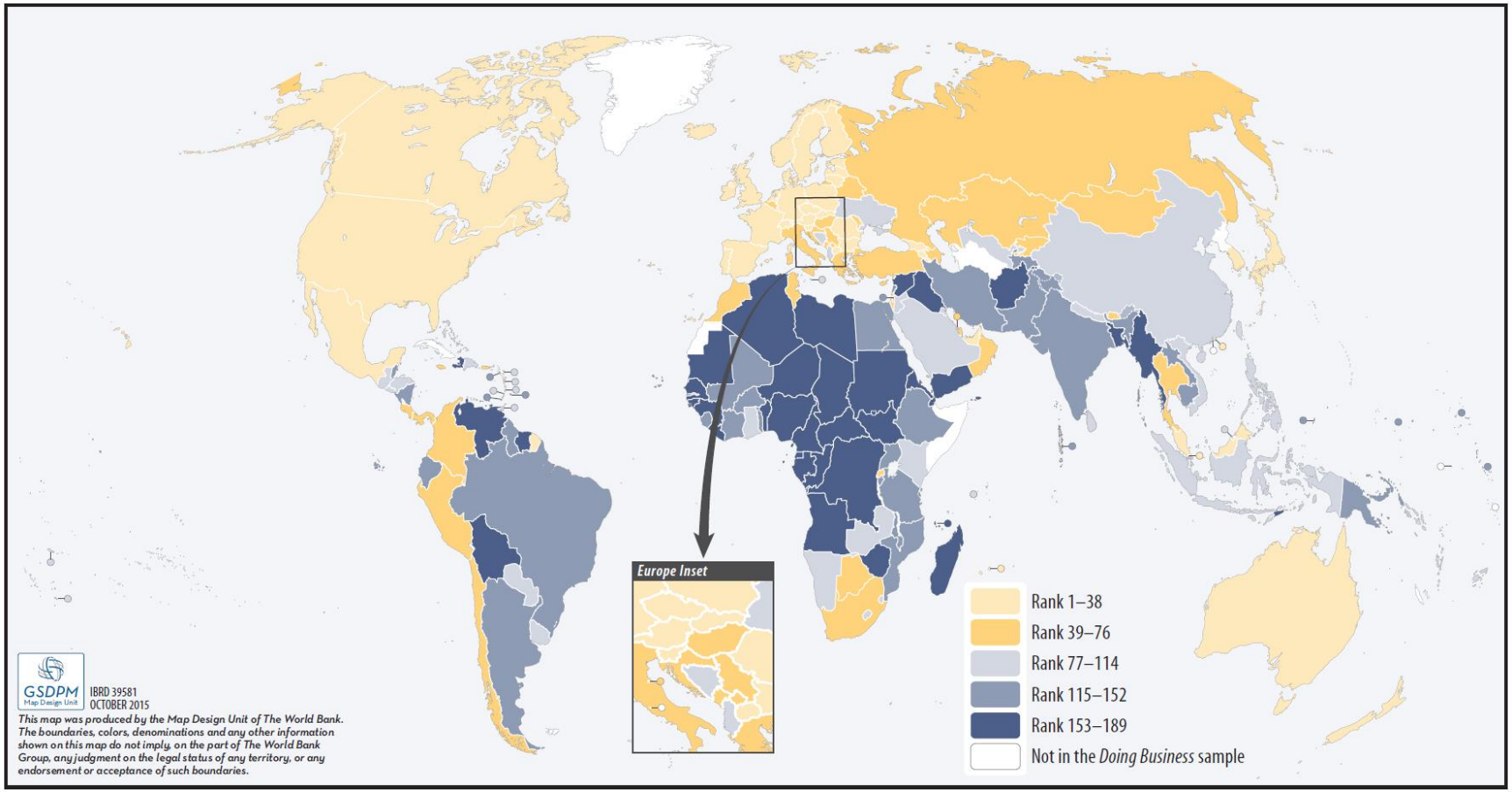
DB 2015 DTF: 82.87

Change in DTF: 0.8

* DB2015 ranking shown is not last year's published ranking but a comparable ranking for DB2015 that captures the effects of such factors as data revisions and the changes in methodology. See the data notes starting on page 119 of the *Doing Business 2016* report for sources and definitions.

## THE BUSINESS ENVIRONMENT

Figure 1.1 Where economies stand in the global ranking on the ease of doing business

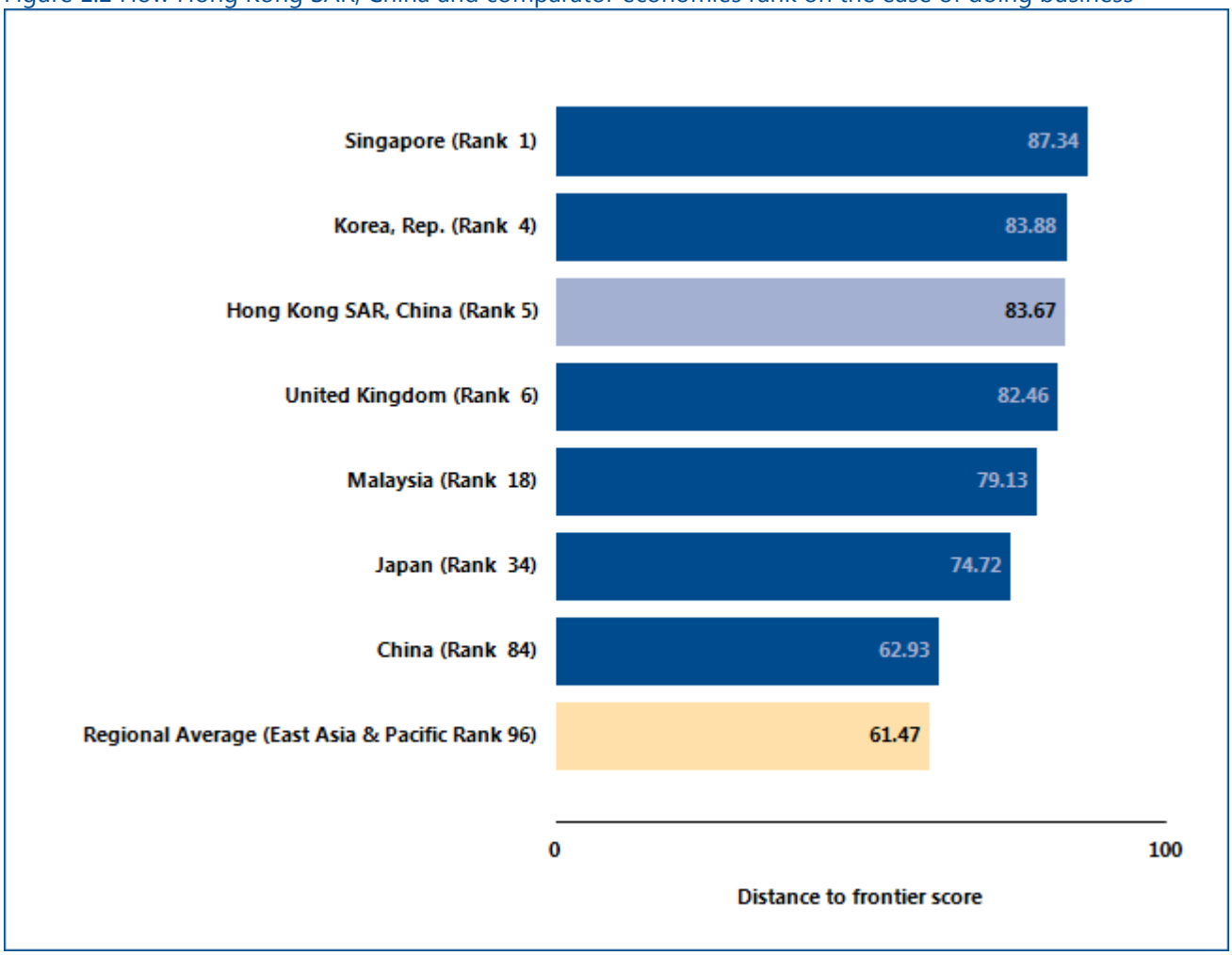



*Source: Doing Business* database.

## THE BUSINESS ENVIRONMENT

For policy makers, knowing where their economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks relative to comparator economies and relative to the regional average (figure 1.2). The economy's rankings (figure 1.3) and distance to frontier scores (figure 1.4) on the topics included in the ease of doing business ranking provide another perspective.

Figure 1.2 How Hong Kong SAR, China and comparator economies rank on the ease of doing business




*Note:* The rankings are benchmarked to June 2015 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.
*Source: Doing Business* database.

## THE BUSINESS ENVIRONMENT

Figure 1.3 Rankings on *Doing Business* topics - Hong Kong SAR, China
(Scale: Rank 189 center, Rank 1 outer edge)

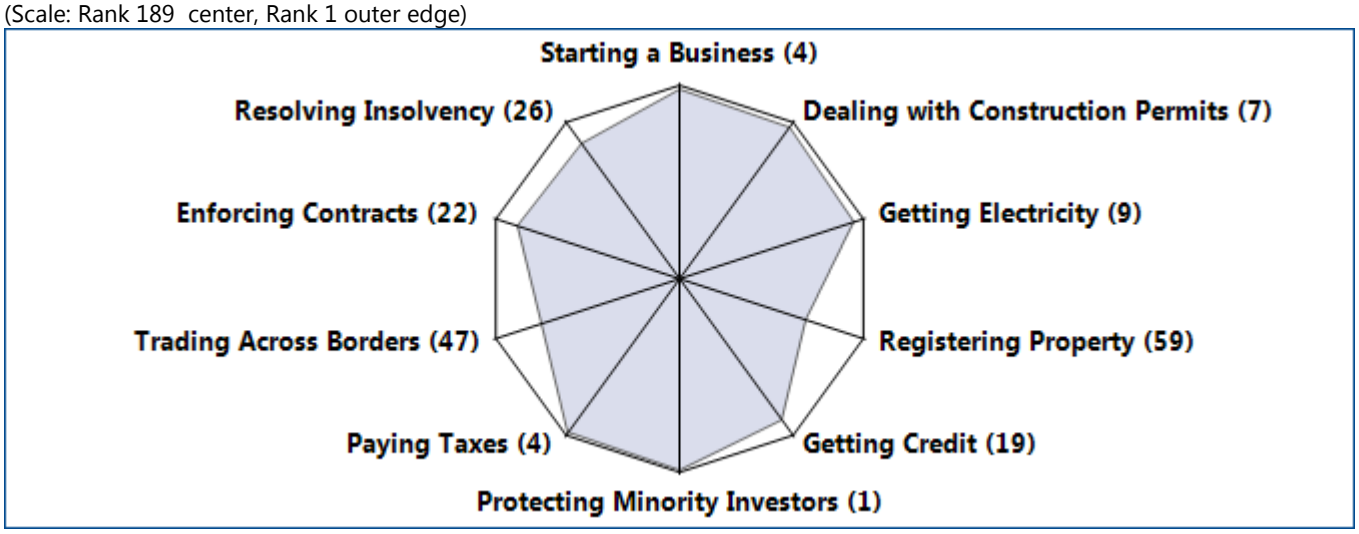
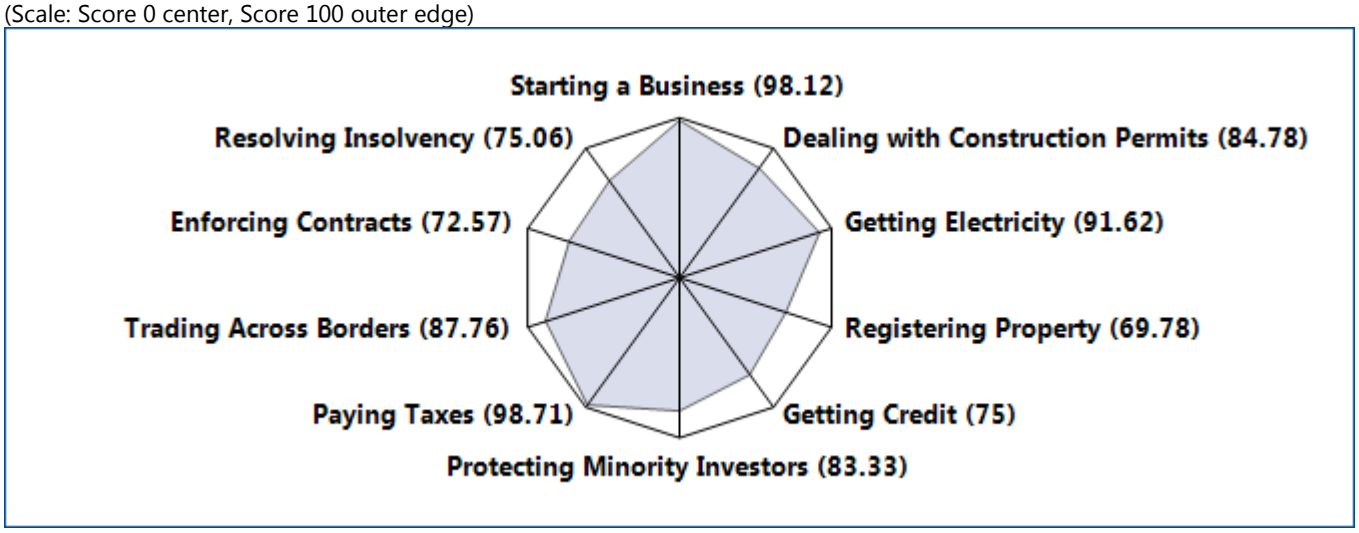



Figure 1.4 Distance to frontier scores on *Doing Business* topics - Hong Kong SAR, China
(Scale: Score 0 center, Score 100 outer edge)




*Source: Doing Business* database.
*Note:* The rankings are benchmarked to June 2015 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.

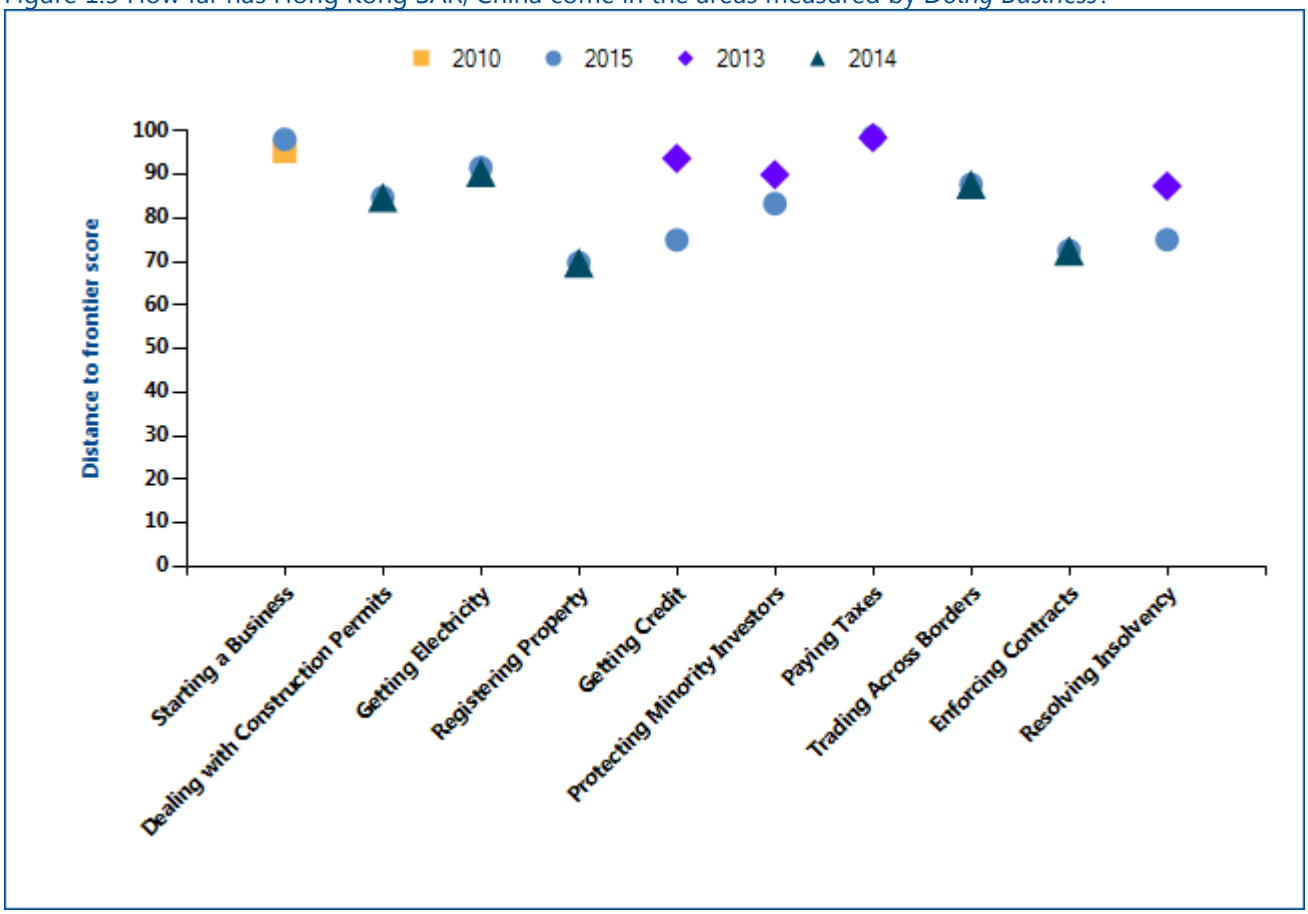
## THE BUSINESS ENVIRONMENT

Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy's regulatory environment for firms, but they are always relative.

Moreover, year-to-year changes in the overall rankings do not reflect how the business regulatory environment in an economy has changed over time—or how it has changed in different areas. To aid in assessing such changes, *Doing Business* introduced the distance to frontier score. This measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator.

Comparing the measure for an economy at 2 points in time allows users to assess how much the economy's regulatory environment as measured by *Doing Business* has changed over time—how far it has moved toward (or away from) the most efficient practices and strongest regulations in areas covered by *Doing Business* (figure 1.5).

Figure 1.5 How far has Hong Kong SAR, China come in the areas measured by *Doing Business*?




*Note:* The distance to frontier score shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator. Starting a business is comparable to 2010. Getting credit, protecting minority investors, paying taxes and resolving insolvency had methodology changes in 2014 and thus are only comparable to 2013. Dealing with construction permits, registering property, trading across borders, enforcing contracts and getting electricity had methodology changes in 2015 and thus are only comparable to 2014. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). See the data notes starting on page 119 of the *Doing Business 2016* report for more details on the distance to frontier score.
*Source: Doing Business* database.

## THE BUSINESS ENVIRONMENT

The absolute values of the indicators tell another part of the story (table 1.1). The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, may reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. Or they may reveal unexpected strengths in an area of business regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators today with those in the previous year may show where substantial bottlenecks persist—and where they are diminishing.

Table 1.1 Summary of *Doing Business* indicators for Hong Kong SAR, China

| Indicator | Hong Kong SAR, China DB2016 | Hong Kong SAR, China DB2015 | China DB2016 | Japan DB2016 | Korea, Rep. DB2016 | Malaysia DB2016 | Singapore DB2016 | United Kingdom DB2016 | Best performer globally DB2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Starting a Business (rank)** | 4 | 8 | 136 | 81 | 23 | 14 | 10 | 17 | New Zealand (1) |
| **Starting a Business (DTF Score)** | 98.12 | 96.38 | 77.46 | 86.34 | 94.36 | 95.34 | 96.49 | 94.57 | New Zealand (99.96) |
| **Procedures (number)** | 2.0 | 3.0 | 11.0 | 8.0 | 3.0 | 3.0 | 3.0 | 4.0 | New Zealand (1.00)* |
| **Time (days)** | 1.5 | 2.5 | 31.4 | 10.2 | 4.0 | 4.0 | 2.5 | 4.5 | New Zealand (0.50) |
| **Cost (% of income per capita)** | 1.2 | 1.4 | 0.7 | 7.5 | 14.5 | 6.7 | 0.6 | 0.1 | Slovenia (0.00) |
| **Paid-in min. capital (% of income per capita)** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 105 Economies (0.00)* |
| **Dealing with Construction Permits (rank)** | 7 | 7 | 176 | 68 | 28 | 15 | 1 | 23 | Singapore (1) |
| **Dealing with Construction Permits (DTF Score)** | 84.78 | 84.8 | 48.29 | 71.65 | 77.83 | 81.1 | 92.97 | 78.92 | Singapore (92.97) |
| **Procedures (number)** | 11.0 | 11.0 | 22.0 | 12.0 | 10.0 | 15.0 | 10.0 | 9.0 | 5 Economies (7.00)* |

| Indicator | Hong Kong SAR, China DB2016 | Hong Kong SAR, China DB2015 | China DB2016 | Japan DB2016 | Korea, Rep. DB2016 | Malaysia DB2016 | Singapore DB2016 | United Kingdom DB2016 | Best performer globally DB2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Time (days)** | 72.0 | 72.0 | 244.3 | 197.0 | 28.0 | 79.0 | 26.0 | 105.0 | Singapore (26.00) |
| **Cost (% of warehouse value)** | 0.7 | 0.7 | 7.2 | 0.6 | 4.3 | 1.4 | 0.3 | 1.1 | Qatar (0.00) |
| **Building quality control index (0-15)** | 12.0 | 12.0 | 9.0 | 10.0 | 8.0 | 13.0 | 14.0 | 9.0 | New Zealand (15.00) |
| **Getting Electricity (rank)** | 9 | 10 | 92 | 14 | 1 | 13 | 6 | 15 | Korea, Rep. (1) |
| **Getting Electricity (DTF Score)** | 91.62 | 90.53 | 68.66 | 89.88 | 99.88 | 90.05 | 94.34 | 89.12 | Korea, Rep. (99.88) |
| **Procedures (number)** | 4.0 | 4.0 | 5.5 | 3.4 | 3.0 | 5.0 | 4.0 | 4.0 | 14 Economies (3.00)* |
| **Time (days)** | 28.0 | 38.0 | 143.2 | 97.7 | 18.0 | 32.0 | 31.0 | 79.0 | Korea, Rep. (18.00)* |
| **Cost (% of income per capita)** | 1.3 | 1.4 | 413.3 | 0.0 | 39.8 | 30.7 | 25.9 | 26.7 | Japan (0.00) |
| **Reliability of supply and transparency of tariff index (0-8)** | 7.0 | 7.0 | 6.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 18 Economies (8.00)* |
| **Registering Property (rank)** | 59 | 59 | 43 | 48 | 40 | 38 | 17 | 45 | New Zealand (1) |
| **Registering Property (DTF Score)** | 69.78 | 69.77 | 75.02 | 73.91 | 76.22 | 76.32 | 85.66 | 74.5 | New Zealand (94.46) |
| **Procedures (number)** | 5.0 | 5.0 | 4.0 | 6.0 | 7.0 | 8.0 | 4.0 | 6.0 | 4 Economies (1.00)* |
| **Time (days)** | 27.5 | 27.5 | 19.5 | 13.0 | 6.5 | 13.0 | 4.5 | 21.5 | 3 Economies (1.00)* |
| **Cost (% of property value)** | 7.7 | 7.7 | 3.4 | 5.8 | 5.1 | 3.3 | 2.9 | 4.6 | Saudi Arabia (0.00) |
| **Quality of the land administration index (0-30)** | 23.0 | 23.0 | 17.0 | 24.5 | 27.5 | 27.5 | 26.5 | 24.0 | 3 Economies (28.50)* |

| Indicator | Hong Kong SAR, China DB2016 | Hong Kong SAR, China DB2015 | China DB2016 | Japan DB2016 | Korea, Rep. DB2016 | Malaysia DB2016 | Singapore DB2016 | United Kingdom DB2016 | Best performer globally DB2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Getting Credit (rank)** | 19 | 24 | 79 | 79 | 42 | 28 | 19 | 19 | New Zealand (1) |
| **Getting Credit (DTF Score)** | 75 | 70 | 50 | 50 | 65 | 70 | 75 | 75 | New Zealand (100) |
| **Strength of legal rights index (0-12)** | 8.0 | 7.0 | 4.0 | 4.0 | 5.0 | 7.0 | 8.0 | 7.0 | 3 Economies (12.00)* |
| **Depth of credit information index (0-8)** | 7.0 | 7.0 | 6.0 | 6.0 | 8.0 | 7.0 | 7.0 | 8.0 | 26 Economies (8.00)* |
| **Credit registry coverage (% of adults)** | 0.0 | 0.0 | 89.5 | 0.0 | 0.0 | 57.0 | 0.0 | 0.0 | Portugal (100.00) |
| **Credit bureau coverage (% of adults)** | 96.0 | 96.1 | 0.0 | 100.0 | 100.0 | 77.1 | 58.6 | 100.0 | 22 Economies (100.00)* |
| **Protecting Minority Investors (rank)** | 1 | 1 | 134 | 36 | 8 | 4 | 1 | 4 | Singapore (1)* |
| **Protecting Minority Investors (DTF Score)** | 83.33 | 83.33 | 43.33 | 63.33 | 73.33 | 78.33 | 83.33 | 78.33 | Singapore (83.33)* |
| **Strength of minority investor protection index (0-10)** | 8.3 | 8.3 | 4.3 | 6.3 | 7.3 | 7.8 | 8.3 | 7.8 | 3 Economies (8.30)* |
| **Extent of conflict of interest regulation index (0-10)** | 9.0 | 9.0 | 5.0 | 7.0 | 7.0 | 8.7 | 9.3 | 8.3 | Singapore (9.30)* |
| **Extent of shareholder governance index (0-10)** | 7.7 | 7.7 | 3.7 | 5.7 | 7.7 | 7.0 | 7.3 | 7.3 | 4 Economies (8.00)* |
| **Paying Taxes (rank)** | 4 | 4 | 132 | 121 | 29 | 31 | 5 | 15 | United Arab Emirates (1)* |
| **Paying Taxes (DTF Score)** | 98.71 | 98.51 | 64.46 | 67.16 | 84.53 | 84.31 | 96.56 | 91.34 | United Arab Emirates (99.44)* |
| **Payments (number per** | 3.0 | 3.0 | 9.0 | 14.0 | 12.0 | 13.0 | 6.0 | 8.0 | Hong Kong SAR, |

| Indicator | Hong Kong SAR, China DB2016 | Hong Kong SAR, China DB2015 | China DB2016 | Japan DB2016 | Korea, Rep. DB2016 | Malaysia DB2016 | Singapore DB2016 | United Kingdom DB2016 | Best performer globally DB2016 |
|---|---|---|---|---|---|---|---|---|---|
| year) | | | | | | | | | China (3.00)* |
| Time (hours per year) | 74.0 | 78.0 | 261.0 | 330.0 | 188.0 | 118.0 | 83.5 | 110.0 | Luxembourg (55.00) |
| Total tax rate (% of profit) | 22.8 | 22.8 | 67.8 | 51.3 | 33.2 | 40.0 | 18.4 | 32.0 | Ireland (25.90) |
| Trading Across Borders (rank) | 47 | 46 | 96 | 52 | 31 | 49 | 41 | 38 | Denmark (1)* |
| Trading Across Borders (DTF Score) | 87.76 | 87.76 | 69.13 | 85.9 | 92.48 | 86.74 | 89.35 | 91.4 | Denmark (100)* |
| Time to export: Border compliance (hours) | 19 | 19 | 26 | 48 | 14 | 20 | 12 | 24 | 15 Economies (0.00)* |
| Cost to export: Border compliance (USD) | 282 | 282 | 522 | 306 | 185 | 321 | 335 | 280 | 18 Economies (0.00)* |
| Time to export: Documentary compliance (hours) | 1 | 1 | 21 | 3 | 1 | 10 | 4 | 4 | Jordan (0.00) |
| Cost to export: Documentary compliance (USD) | 52 | 52 | 85 | 15 | 11 | 45 | 37 | 25 | 20 Economies (0.00)* |
| Time to import: Border compliance (hours) | 19 | 19 | 92 | 48 | 6 | 24 | 35 | 8 | 19 Economies (0.00)* |
| Cost to import: Border compliance (USD) | 266 | 266 | 777 | 337 | 315 | 321 | 220 | 205 | 28 Economies (0.00)* |
| Time to import: Documentary compliance (hours) | 1 | 1 | 66 | 3 | 1 | 10 | 1 | 2 | 21 Economies (1.00)* |
| Cost to import: Documentary compliance (USD) | 130 | 130 | 171 | 23 | 27 | 60 | 37 | 0 | 30 Economies (0.00)* |
| Enforcing Contracts | 22 | 22 | 7 | 51 | 2 | 44 | 1 | 33 | Singapore (1) |

| Indicator | Hong Kong SAR, China DB2016 | Hong Kong SAR, China DB2015 | China DB2016 | Japan DB2016 | Korea, Rep. DB2016 | Malaysia DB2016 | Singapore DB2016 | United Kingdom DB2016 | Best performer globally DB2016 |
|---|---|---|---|---|---|---|---|---|---|
| **(rank)** | | | | | | | | | |
| **Enforcing Contracts (DTF Score)** | 72.57 | 72.57 | 77.56 | 65.26 | 84.84 | 66.61 | 84.91 | 69.36 | Singapore (84.91) |
| **Time (days)** | 360.0 | 360.0 | 452.8 | 360.0 | 230.0 | 425.0 | 150.0 | 437.0 | Singapore (150.00) |
| **Cost (% of claim)** | 21.2 | 21.2 | 16.2 | 23.4 | 10.3 | 37.3 | 25.8 | 43.9 | Iceland (9.00) |
| **Quality of judicial processes index (0-18)** | 11.0 | 11.0 | 14.1 | 7.5 | 13.5 | 12.0 | 15.5 | 15.0 | 3 Economies (15.50)* |
| **Resolving Insolvency (rank)** | 26 | 24 | 55 | 2 | 4 | 45 | 27 | 13 | Finland (1) |
| **Resolving Insolvency (DTF Score)** | 75.06 | 75.06 | 55.43 | 93.75 | 90.31 | 62.49 | 74.83 | 82.04 | Finland (93.81) |
| **Recovery rate (cents on the dollar)** | 87.2 | 87.2 | 36.2 | 92.9 | 83.6 | 81.3 | 89.7 | 88.6 | Japan (92.90) |
| **Time (years)** | 0.8 | 0.8 | 1.7 | 0.6 | 1.5 | 1.0 | 0.8 | 1.0 | Ireland (0.40) |
| **Cost (% of estate)** | 5.0 | 5.0 | 22.0 | 3.5 | 3.5 | 10.0 | 3.0 | 6.0 | Norway (1.00) |
| **Outcome (0 as piecemeal sale and 1 as going concern)** | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | |
| **Strength of insolvency framework index (0-16)** | 9.0 | 9.0 | 11.5 | 14.0 | 14.5 | 6.0 | 8.5 | 11.0 | 4 Economies (15.00)* |

*Source: Doing Business* database.

*Note:* DB2015 rankings shown are not last year's published rankings but comparable rankings for DB2015 that capture the effects of such factors as data revisions and changes to the methodology. The global best performer on time for paying taxes is defined as the lowest time recorded among all economies in the DB2016 sample that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and VAT or sales tax. If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a "no practice" mark. Similarly, an economy receives a "no practice" mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a "no practice" mark puts the economy at the bottom of the ranking on the relevant indicator. * Two or more economies share the top ranking on this indicator. A number shown in place of an economy's name indicates the number of economies that share the top ranking on the indicator. For a list of these economies, see the *Doing Business* website (http://www.doingbusiness.org).

# STARTING A BUSINESS

Formal registration of companies has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law. An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good jobs and generating more revenue for the government.

## What do the indicators cover?

*Doing Business* records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. These procedures include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. The ranking of economies on the ease of starting a business is determined by sorting their distance to frontier scores for starting a business. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, several assumptions about the business and the procedures are used. It is assumed that any required information is readily available and that the entrepreneur will pay no bribes. Assumptions about the business:

- Is a limited liability company (or its legal equivalent), located in the largest business city and is 100% domestically owned[1] with five owners, none of whom is a legal entity.
- Has at least 10 and up to 50 employees, all of them domestic nationals.
- Performs general commercial or industrial activities.
- Has a start-up capital of 10 times income per capita and a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.
- Does not qualify for any special benefits.
- Leases the commercial plant or offices and is not a proprietor of real estate.

### WHAT THE STARTING A BUSINESS INDICATORS MEASURE

**Procedures to legally start and operate a company (number)**

Preregistration (for example, name verification or reservation, notarization)

Registration in the economy's largest business city[1]

Postregistration (for example, social security registration, company seal)

**Time required to complete each procedure (calendar days)**

Does not include time spent gathering information

Each procedure starts on a separate day (2 procedures cannot start on the same day). Procedures that can be fully completed online are recorded as ½ day.

Procedure completed once final document is received

No prior contact with officials

**Cost required to complete each procedure (% of income per capita)**

Official costs only, no bribes

No professional fees unless services required by law or commonly used in practice

**Paid-in minimum capital (% of income per capita)**

Deposited in a bank or with a notary before registration (or within 3 months)

[1] For 11 economies the data are also collected for the second largest business city.

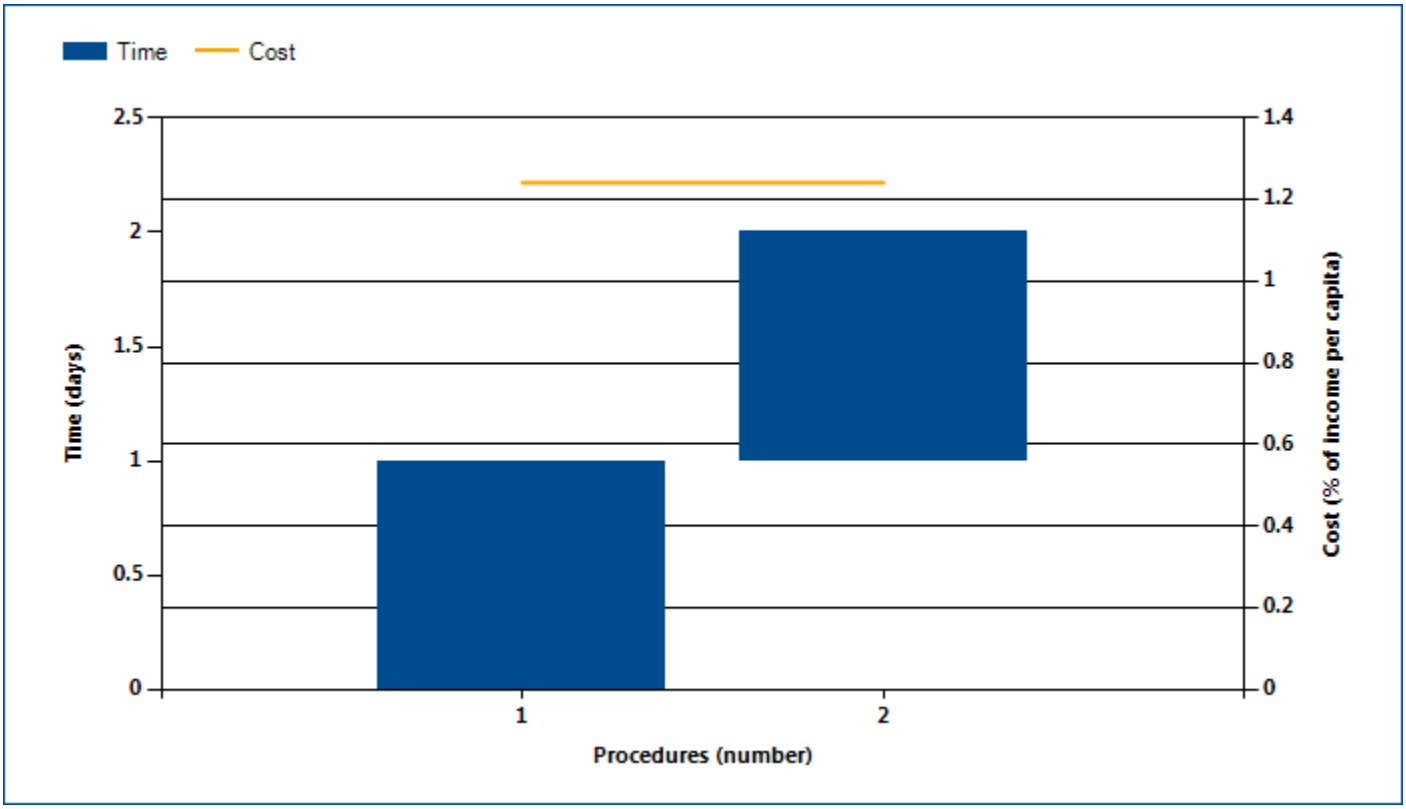
## STARTING A BUSINESS

### Where does the economy stand today?

What does it take to start a business in Hong Kong SAR, China? According to data collected by *Doing Business*, starting a business there requires 2.00 procedures, takes 1.50 days, costs 1.20% of income per capita and requires paid-in minimum capital of 0.00% of income per capita (figure 2.1). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 2.1 What it takes to start a business in Hong Kong SAR, China

Paid-in minimum capital (% of income per capita): 0.00



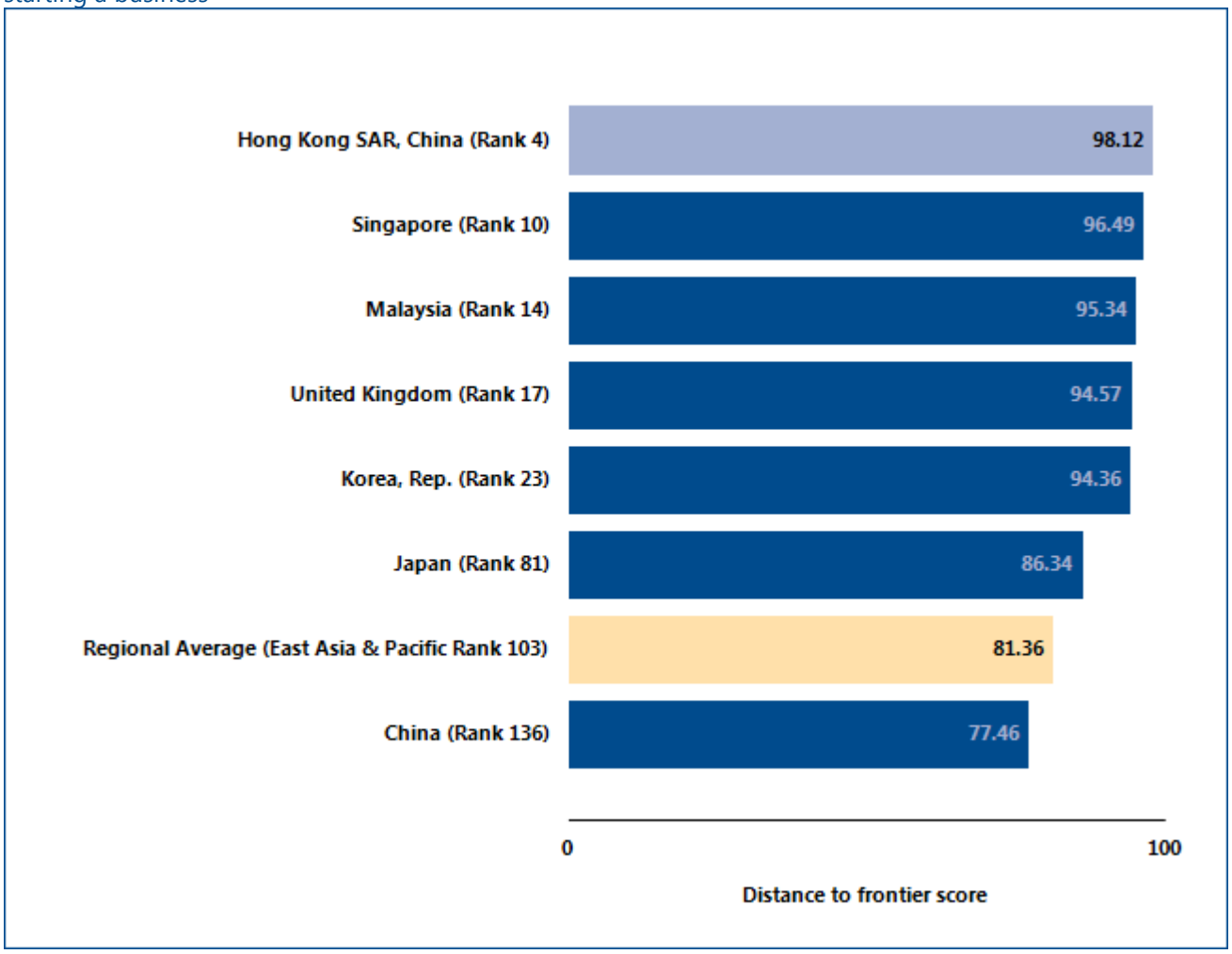

*Source: Doing Business* database.

*Note:* Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the starting a business indicators, see the *Doing Business* website (http://www.doingbusiness.org). For details on the procedures reflected here, see the summary at the end of this chapter.

## STARTING A BUSINESS

Globally, Hong Kong SAR, China stands at 4 in the ranking of 189 economies on the ease of starting a business (figure 2.2). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Hong Kong SAR, China to start a business.

Figure 2.2 How Hong Kong SAR, China and comparator economies rank on the ease of starting a business




*Source: Doing Business* database.

## STARTING A BUSINESS

Economies around the world have taken steps making it easier to start a business—streamlining procedures by setting up a one-stop shop, making procedures simpler or faster by introducing technology and reducing or eliminating minimum capital requirements. Many have undertaken business registration reforms in stages—and they often are part of a larger regulatory reform program. Among the benefits have been greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities.

What business registration reforms has *Doing Business* recorded in Hong Kong SAR, China (table 2.1)?

Table 2.1 How has Hong Kong SAR, China made starting a business easier—or not?
By *Doing Business* report year from DB2011 to DB2016

| **DB year** | Reform |
|---|---|
| **DB2012** | Hong Kong SAR (China) made starting a business easier by introducing online electronic services for company and business registration. |
| **DB2014** | Hong Kong SAR, China, made starting a business less costly by abolishing the capital duty levied on local companies. |
| **DB2015** | Hong Kong SAR, China, made starting a business more difficult by increasing the registration fee. |
| **DB2016** | Hong Kong SAR, China, made starting a business easier by eliminating the requirement for a company seal. |

*Source: Doing Business* database.
*Note:* For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.

# STARTING A BUSINESS

## What are the details?

Underlying the indicators shown in this chapter for Hong Kong SAR, China is a set of specific procedures—the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. These are identified by *Doing Business* through collaboration with relevant local professionals and the study of laws, regulations and publicly available information on business entry in that economy. Following is a detailed summary of those procedures, along with the associated time and cost. These procedures are those that apply to a company matching the standard assumptions (the "standardized company") used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators measure).

**STANDARDIZED COMPANY**

**Legal form:** **Limited Liability Company**

**Paid-in minimum capital requirement:** **HKD 0**

**City:** **Hong Kong**

**Start-up Capital:** **10 times GNI per capita**

Table 2.2 Summary of time, cost and procedures for starting a business in Hong Kong SAR, China

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| 1 | **Choose a company name and obtain a certificate of incorporation**<br><br>A company name (which may be in English, traditional Chinese or both) can be searched online free of charge at the Companies Registry (www.icris.cr.gov.hk/csci/login_i.do?loginType=iguest&username=iguest ), however the acceptability of a company name can only be confirmed after an application has been processed.<br><br>A certificate of incorporation will be issued upon the filing of an incorporation form signed by the founder member(s) (for companies limited by shares this is a Form NNC1), a copy of the articles of association and a Notice to Business Registration Office (IRBR1). The incorporation form contains comprehensive information on the address of the registered office and particulars of the first secretary and first directors of a company. Paper submissions for incorporation normally require approximately four working days for the certificate to be issued. On 23 January 2014, the new Companies Ordinance ("the new CO") abolishes the requirement to have a Memorandum of Association ("MA") as a constitutional document of a local company. A company incorporated in Hong Kong under the new CO is only required to have Articles of Association ("AA").<br><br>With the implementation of the "e-Registry" in 2011, applicants can now complete the incorporation and business registration process by submitting electronic applications online to the Companies Registry (www.eregistry.gov.hk). In straightforward cases, this enables registered users to complete the relevant procedures and download the electronic Certificate of Incorporation and Business Registration Certificate within one day.<br><br>*Agency: Companies Registry* | Less than one day (online procedure) | HKD 1,720 application fee + HKD 2,000 business registration fee + HKD 250 for business registration levy |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | | | |
| 2 | **Sign up Employee's Compensation Insurance and Mandatory Provident Fund (MPF) Schemes with a private company or a bank**<br><br>Pursuant to the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) ("ECO"), an employer must take out insurance to cover liabilities for his employees (both full- and part-time) who experience accidents arising out of and in the course of employment, and resulting in injuries or fatalities.<br><br>In addition, except for persons exempted from joining a Mandatory Provident Fund ("MPF") scheme, employers must enroll their regular employees (i.e. employees who are at least 18 but under 65 years of age and employed for 60 days or more) and where applicable, their casual employees (i.e. employees are at least 18 but under 65 years of age and employed in the construction or catering industry on a day-to-day basis or for a fixed period of less than 60 days) in an MPF scheme administered by any MPF approved trustee in Hong Kong and make MPF contributions accordingly. Scheme enrollment can be arranged through MPF registered intermediaries, which include banks and insurance companies.<br><br>The newly incorporated company can apply for setting up the Employee's Compensation Insurance and MPF Scheme anytime after incorporation.<br><br>The procedure can be done online via various private insurance providers' web portals. However, must businesses prefer to have advisory meeting with insurance service provider rather than reviewing all information online by themselves.<br><br>*Agency: Labour Department; Mandatory Provident Fund Schemes Authority (MPFA)* | 1 day | no charge |

* Takes place simultaneously with another procedure.
*Source: Doing Business* database.
*Note:* Online procedures account for 0.5 days in the total time calculation.

# DEALING WITH CONSTRUCTION PERMITS

Regulation of construction is critical to protect the public. But it needs to be efficient, to avoid excessive constraints on a sector that plays an important part in every economy. Where complying with building regulations is excessively costly in time and money, many builders opt out. They may pay bribes to pass inspections or simply build illegally, leading to hazardous construction that puts public safety at risk. Where compliance is simple, straightforward and inexpensive, everyone is better off.

## What do the indicators cover?

*Doing Business* records all procedures required for a business in the construction industry to build a warehouse along with the time and cost to complete each procedure. In addition, this year *Doing Business* introduces a new measure, the building quality control index, evaluating the quality of building regulations, the strength of quality control and safety mechanisms, liability and insurance regimes, and professional certification requirements.

The ranking of economies on the ease of dealing with construction permits is determined by sorting their distance to frontier scores for dealing with construction permits. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, several assumptions about the construction company, the warehouse project and the utility connections are used.

**Assumptions about the construction company**

The construction company (BuildCo):

- Is a limited liability company (or its legal equivalent).
- Operates in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is 100% domestically and privately owned.
- Has five owners, none of whom is a legal entity.
- Is fully licensed and insured to carry out construction projects, such as building warehouses.

**WHAT THE DEALING WITH CONSTRUCTION PERMITS INDICATORS MEASURE**

**Procedures to legally build a warehouse (number)**

Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates

Submitting all required notifications and receiving all necessary inspections

Obtaining utility connections for water and sewerage

Registering and selling the warehouse after its completion

**Time required to complete each procedure (calendar days)**

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day

Procedure considered completed once final document is received

No prior contact with officials

**Cost required to complete each procedure (% of warehouse value)**

Official costs only, no bribes

**Building quality control index (0-15)**

Sum of the scores of six component indices:

Quality of building regulations (0-2)

Quality control before construction (0-1)

Quality control during construction (0-3)

Quality control after construction (0-3)

Liability and insurance regimes (0-2)

Professional certifications (0-4)

The construction company (BuildCo) (*continued*):

- Has 60 builders and other employees, all of them nationals with the technical expertise and professional experience necessary to obtain construction permits and approvals.
- Has at least one employee who is a licensed architect or engineer and registered with the local association of architects or engineers. BuildCo is not assumed to have any other employees who are technical or licensed experts, such as geological or topographical experts.
- Has paid all taxes and taken out all necessary insurance applicable to its general business activity (for example, accidental insurance for construction workers and third-person liability).
- Owns the land on which the warehouse will be built and will sell the warehouse upon its completion.
- Is valued at 50 times income per capita.

**Assumptions about the warehouse**

The warehouse:

- Will be used for general storage activities, such as storage of books or stationery. The warehouse will not be used for any goods requiring special conditions, such as food, chemicals or pharmaceuticals.
- Will have two stories, both above ground, with a total constructed area of approximately 1,300.6 square meters (14,000 square feet). Each floor will be 3 meters (9 feet, 10 inches) high.
- Will have road access and be located in the periurban area of the economy's largest business city (that is, on the fringes of the city but still within its official limits). For 11 economies the data are also collected for the second largest business city.
- Will not be located in a special economic or industrial zone. Will be located on a land plot of approximately 929 square meters (10,000 square feet) that is 100% owned by BuildCo and is accurately registered in the cadastre and land registry.
- Will be a new construction (there was no previous construction on the land), with no trees, natural water sources, natural reserves or historical monuments of any kind on the plot.
- Will have complete architectural and technical plans prepared by a licensed architect. If preparation of the plans requires such steps as obtaining further documentation or getting prior approvals from external agencies, these are counted as procedures.
- Will include all technical equipment required to be fully operational.
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

**Assumptions about the utility connections**

The water and sewerage connections:

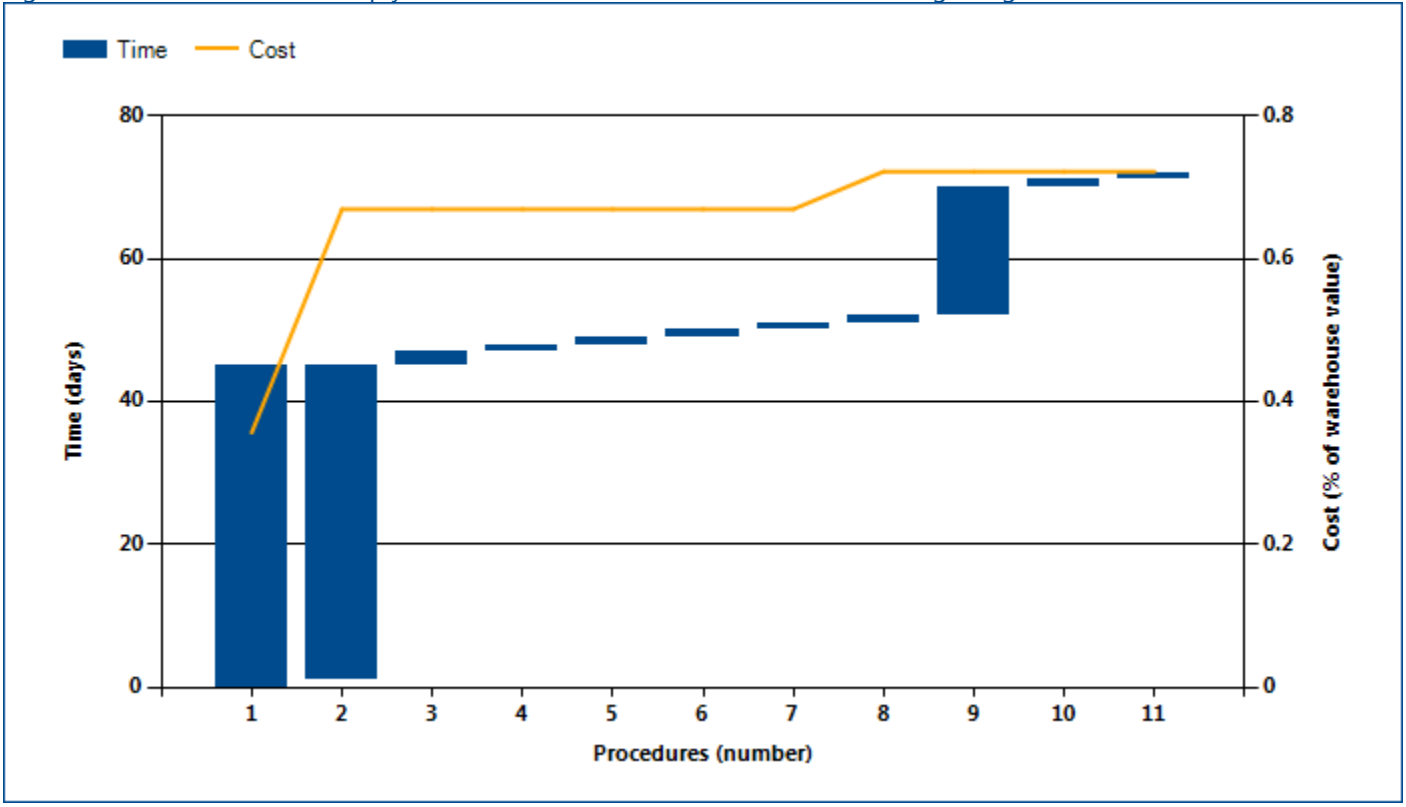
- Will be 150 meters (492 feet) from the existing water source and sewer tap. If there is no water delivery infrastructure in the economy, a borehole will be dug. If there is no sewerage infrastructure, a septic tank in the smallest size available will be installed or built.
- Will not require water for fire protection reasons; a fire extinguishing system (dry system) will be used instead. If a wet fire protection system is required by law, it is assumed that the water demand specified below also covers the water needed for fire protection.
- Will have an average water use of 662 liters (175 gallons) a day and an average wastewater flow of 568 liters (150 gallons) a day. Will have a peak water use of 1,325 liters (350 gallons) a day and a peak wastewater flow of 1,136 liters (300 gallons) a day.
- Will have a constant level of water demand and wastewater flow throughout the year.
- Will be 1 inch in diameter for the water connection and 4 inches in diameter for the sewerage connection.

## DEALING WITH CONSTRUCTION PERMITS

### Where does the economy stand today?

What does it take to comply with the formalities to build a warehouse in Hong Kong SAR, China? According to data collected by *Doing Business*, dealing with construction permits there requires 11.00 procedures, takes 72.00 days and costs 0.70% of the warehouse value (figure 3.1). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 3.1 What it takes to comply with formalities to build a warehouse in Hong Kong SAR, China




*Source: Doing Business* database.
*Note:* Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business* website (http://www.doingbusiness.org). For details on the procedures reflected here, see the summary at the end of this chapter.
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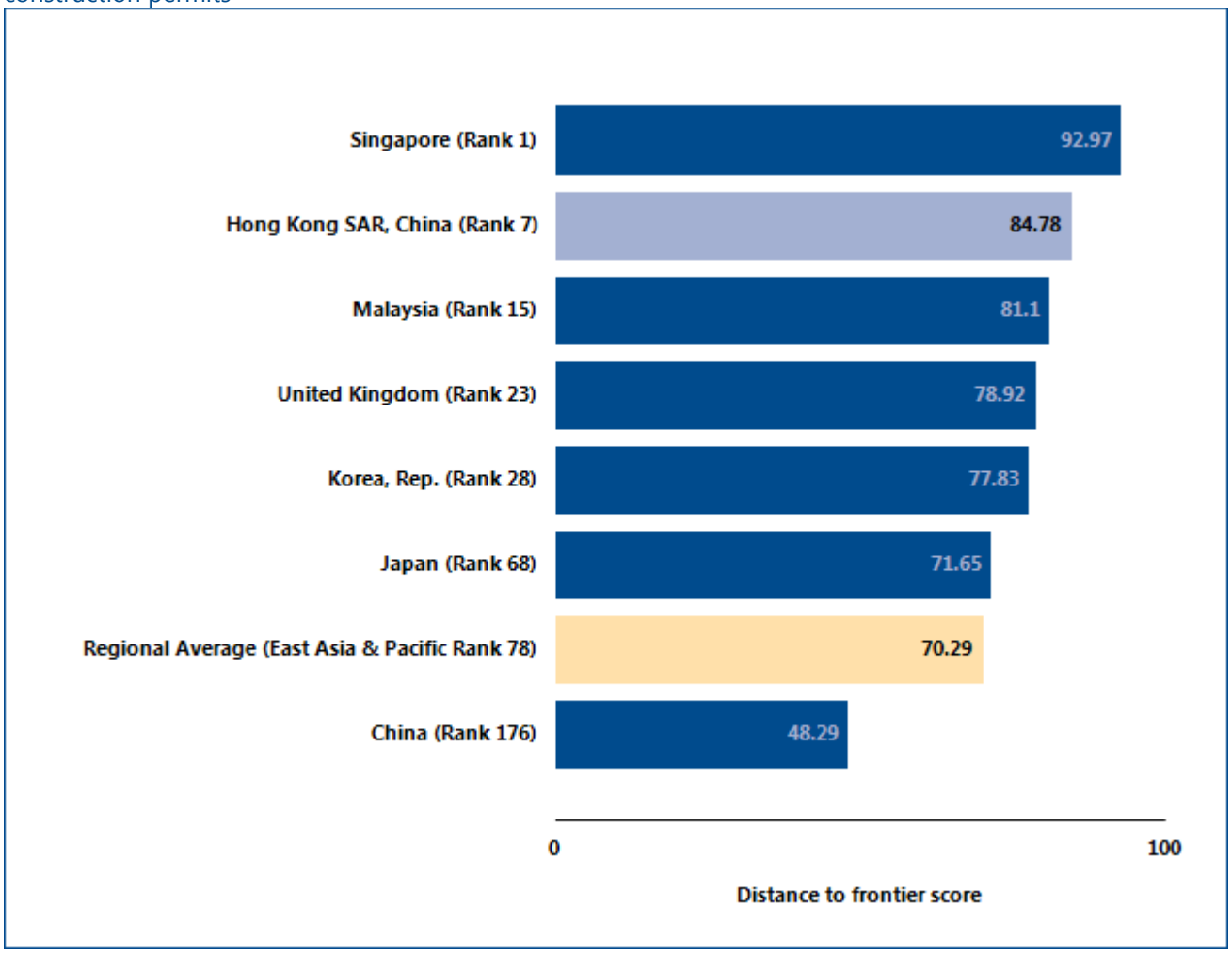
## DEALING WITH CONSTRUCTION PERMITS

Globally, Hong Kong SAR, China stands at 7 in the ranking of 189 economies on the ease of dealing with construction permits (figure 3.2). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Hong Kong SAR, China to legally build a warehouse.

Figure 3.2 How Hong Kong SAR, China and comparator economies rank on the ease of dealing with construction permits




*Source: Doing Business* database.

# DEALING WITH CONSTRUCTION PERMITS

## What are the details?

The indicators reported here for Hong Kong SAR, China are based on a set of specific procedures—the steps that a company must complete to legally build a warehouse—identified by *Doing Business* through information collected from experts in construction licensing, including architects, civil engineers, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. These procedures are those that apply to a company and structure matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

| BUILDING A WAREHOUSE | |
|---|---|
| **Estimated value of warehouse :** | **HKD 15,992,921** |
| **City :** | **Hong Kong** |

The procedures, along with the associated time and cost, are summarized below.

Table 3.2 Summary of time, cost and procedures for dealing with construction permits in Hong Kong SAR, China

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| 1 | **Obtain approval by submitting applications to the One Stop Center**<br><br>BuildCo must submit the following documents for approval:<br>• Building plans (Forms BA5, BD24)<br>• General building plans<br>• Spread footing plans<br>• Hoarding plans<br>• Site formation plans<br>• Fire service installation plan (Form FSI/314)<br>• Drainage plan<br><br>In December 2008 a One Stop Center was established for Warehouse Construction Permits under the administration of the Efficiency Unit (EU) for receiving all relevant building license applications to 6 government departments and 2 private utilities (i.e. telephone line and electricity supply) and coordinating their joint inspections for two-storey warehouse projects.<br><br>Property developers can use Form OSC-1 to submit to the One Stop Centre which combines all applications relating to building plans approval and consent for commencement of building works from Buildings Department, technical audit of water supply connection works and issue of water supply certificate by Water Supplies Department, and road excavation permit from both the Police and Highways Department. This new arrangement simplifies the submission process by combing the following procedures:<br>(i) Obtain building plans approval, HKD 38,360.<br>(ii) Apply and pay for techical audit of water supply connection works and submit application for issue of water supply certificate, HKD 16,819.<br>(iii) Apply, pay and receive road excavation work permission from Highways Department, HKD 1,924.<br>(iv) Notify and obtain approval from Police Department<br>(v) Obtain building consent from Building Department | 45 days | HKD 57,103 |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | Total cost of: HKD 57,103<br><br>*Agency: Hong Kong One Stop Center (OSC)* | | |
| **2** | *** Hire an external supervising engineer to conduct inspections during construction**<br><br>BuildCo has to hire external engineers (i.e., an authorized person (AP), registered structural engineer (RSE) and registered geotechnical engineer (RGE) registered under the building law) to conduct inspections according to the schedule of inspections specified in a statutory supervision plan. Supervision plan is prepared by the designers and the contractor which sets out the plan of safety management of the construction works prepared in accordance with a technical memorandum issued under the building law.<br><br>The cost estimate for hiring an independent third-party engineer to conduct inspections for a 2-story, 1300 sq. meters warehouse which has a 7-month construction period would be HKD 40,000 to HKD 60,000.<br><br>*Agency: Authorised person (AP), registered structural engineer (RSE) and registered geotechnical engineer (RGE)* | 1 day | HKD 50,000 |
| **3** | **Request and receive inspection of foundation strata**<br><br>At the approval stage for building foundation plans, the Buildings Department normally imposes some requirements and conditions for the construction of the foundation to ensure that the approved plans and the required standards are complied with. Upon the completion of the foundation, Form BA 14 and as-built foundation records must be submitted to notify the Buildings Department that the foundation work has been completed. The form must be approved by the Buildings Department before the next stage of construction can begin. The construction site is inspected within 1 day of the notification.<br><br>*Agency: Buildings Department* | 2 days | no charge |
| **4** | **Receive inspection by the Building Department on the superstructure construction - I**<br><br>The Building Department will conduct approximately three scheduled inspections (i.e., one inspection at foundation stage and two inspections at superstructure construction stage) and several unscheduled surprise inspections at various stages of construction.<br><br>*Agency: Buildings Department and Geotechnical Engineering Office of Civil Engineering Development Department* | 1 day | no charge |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | | | |
| 5 | **Receive inspection by the Building Department on the superstructure construction - II**<br><br>The Building Department will conduct approximately three scheduled inspections (i.e., one inspection at foundation stage and two inspections at superstructure construction stage) and several unscheduled surprise inspections at various stages of construction.<br><br>*Agency: Buildings Department and Geotechnical Engineering Office of Civil Engineering Development Department* | 1 day | no charge |
| 6 | **Receive an unscheduled inspection by the Building Department - I**<br><br>The Building Department will conduct approximately three scheduled inspections (i.e., one inspection at foundation stage and two inspections at superstructure construction stage) and several unscheduled surprise inspections at various stages of construction.<br><br>*Agency: Buildings Department and Geotechnical Engineering Office of Civil Engineering Development Department* | 1 day | no charge |
| 7 | **Receive an unscheduled inspection by the Building Department - II**<br><br>The Building Department will conduct approximately three scheduled inspections (i.e., one inspection at foundation stage and two inspections at superstructure construction stage) and several unscheduled surprise inspections at various stages of construction.<br><br>*Agency: Buildings Department and Geotechnical Engineering Office of Civil Engineering Development Department* | 1 day | no charge |
| 8 | **Submit notification of project completion and relevant applications**<br><br>Upon completion of construction, the following applications/notifications can be submitted in one go to the One Stop Centre for referral:<br><br>(a) Application to the Drainage Services Department for technical audit for drainage connection works (cost: HKD 4,290)<br>(b) Application to the Fire Services Department for issue of Fire Services Certificate (F.S. 172) (cost: HKD 4,130) | 1 day | HKD 8,420 |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | (c) Application to the Buildings Department for Occupation Permit (free of charge);<br>(d) Application to the Lands Department for issue of Certificate of Compliance (free of charge);<br>(e) Notification to Water Supplies Department for completion of plumbing works via the Composite Form (free of charge)<br>(f) Application for a joint inspection, if preferred (cost: nil).<br><br>The following certificates are obtained through the One Stop Centre after the final inspection:<br><br>(a) Fire Services Certificate (F.S. 172);<br>(b) Occupation Permit;<br>(c) Certificate of Compliance; and<br>(d) Water Supply Certificate.<br><br>*Agency: Hong Kong One Stop Center (OSC)* | | |
| **9** | **Obtain relevant certificates through the One Stop Center**<br><br>*Agency: Hong Kong One Stop Center* | 18 days | no charge |
| **10** | **Receive joint and final inspection of relevant licensing authorities coordinated by the One Stop Center**<br><br>*Agency: Hong Kong One Stop Center (OSC)* | 1 day | no charge |
| **11** | **Obtain water connection**<br><br>The application for water connection is done earlier when applying and paying for technical audit of water supply connection works. The inspection for water connection is conducted in the procedure "Receive joint and final inspection of relevant licensing authorities coordinated by the One Stop Center". Water connection is obtained after the joint inspection.<br><br>*Agency: Hong Kong Water Supplies Department (WSD)* | 1 day | no charge |

* Takes place simultaneously with another procedure.
*Source: Doing Business* database.
*Note:* Online procedures account for 0.5 days in the total time calculation.

## DEALING WITH CONSTRUCTION PERMITS

### Building Quality Control Index

The building quality control index is the sum of the scores on the quality of building regulations, quality control before construction, quality control during construction, quality control after construction, liability and insurance regimes, and professional certifications indices.

The index ranges from 0 to 15, with higher values indicating better quality control and safety mechanisms in the construction permitting system.

The indicator is based on the same case study assumptions as the measures of efficiency.

Table 3.3 Summary of quality control and safety mechanisms in Hong Kong SAR, China

| | Answer | Score |
|---|---|---|
| Building quality control index (0-15) | | 12.00 |
| Quality of building regulations index (0-2) | | 2.00 |
| In what way are the building regulations (including the building code) or any regulations dealing with construction permits made available? (0-1) | Available online; Free of charge; In official gazette. | 1.0 |
| Which requirements for obtaining a building permit are clearly specified by the building regulations or by any accessible website, brochure or pamphlet? (0-1) | List of required documents; Fees to be paid; Required preapprovals. | 1.0 |
| Quality control before construction index (0-1) | | 1.00 |
| Who is part of the committee or team that reviews and approves building permit applications in the relevant permit-issuing agency? (0-1) | Licensed architect; Licensed engineer. | 1.0 |
| Quality control during construction index (0-3) | | 2.00 |
| What types of inspections (if any) are required by law to be carried out during construction? (0-2) | Inspections by in-house engineer; Inspections by external engineer or firm; Unscheduled inspections; Inspections at various phases. | 1.0 |
| Do legally mandated inspections occur in practice during construction? (0-1) | Mandatory inspections are always done in practice. | 1.0 |
| Quality control after construction index (0-3) | | 3.00 |
| Is there a final inspection required by law to verify that the building was built in accordance with the approved plans and regulations? (0-2) | Yes, final inspection is done by government agency; Yes, in-house engineer submits report for final inspection; Yes, external engineer submits report for final inspection. | 2.0 |

| | Answer | Score |
|---|---|---|
| Do legally mandated final inspections occur in practice? (0-1) | Final inspection always occurs in practice. | 1.0 |
| Liability and insurance regimes index (0-2) | | 2.00 |
| Which parties (if any) are held liable by law for structural flaws or problems in the building once it is in use? (0-1) | Architect or engineer; Professional in charge of the supervision; Construction company. | 1.0 |
| Which parties (if any) are required by law to obtain an insurance policy to cover possible structural flaws or problems in the building once it is in use? (0-1) | Insurance is commonly taken in practice. | 1.0 |
| Professional certifications index (0-4) | | 2.00 |
| What are the qualification requirements for the professional responsible for verifying that the architectural plans or drawings are in compliance with existing building regulations? (0-2) | Minimum number of years of experience; University degree in architecture or engineering; Being a registered architect or engineer; Passing a certification exam. | 2.0 |
| What are the qualification requirements for the professional who supervises the construction on the ground? (0-2) | Minimum number of years of experience; Being a registered architect or engineer; Passing a certification exam. | 0.0 |

*Source: Doing Business* database.

# GETTING ELECTRICITY

Access to reliable and affordable electricity is vital for businesses. To counter weak electricity supply, many firms in developing economies have to rely on self-supply, often at a prohibitively high cost. Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection.

## What do the indicators cover?

*Doing Business* records all procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. These procedures include applications and contracts with electricity utilities, clearances from other agencies and the external and final connection works. In addition, this year *Doing Business* adds two new measures: the reliability of supply and transparency of tariffs index (included in the aggregate distance to frontier score and ranking on the ease of doing business) and the price of electricity (omitted from these aggregate measures). The ranking of economies on the ease of getting electricity is determined by sorting their distance to frontier scores for getting electricity. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions are used.

**Assumptions about the warehouse**

The warehouse:

- Is owned by a local entrepreneur.
- Is located in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is located in an area where similar warehouses are typically located. In this area a new electricity connection is not eligible for a special investment promotion regime (offering special subsidization or faster service, for example).
- Is located in an area with no physical constraints. For example, the property is not near a railway.
- Is a new construction and is being connected to electricity for the first time.

**WHAT THE GETTING ELECTRICITY INDICATORS MEASURE**

**Procedures to obtain an electricity connection (number)**

Submitting all relevant documents and obtaining all necessary clearances and permits

Completing all required notifications and receiving all necessary inspections

Obtaining external installation works and possibly purchasing material for these works

Concluding any necessary supply contract and obtaining final supply

**Time required to complete each procedure (calendar days)**

Is at least 1 calendar day

Each procedure starts on a separate day

Does not include time spent gathering information

Reflects the time spent in practice, with little follow-up and no prior contact with officials

**Cost required to complete each procedure (% of income per capita)**

Official costs only, no bribes

Excludes value added tax

**The reliability of supply and transparency of tariffs index**

Sum of the scores of six component indices:

Duration and frequency of outages

Tools to monitor power outages

Tools to restore power supply

Regulatory monitoring of utilities' performance

Financial deterrents aimed at limiting outages

Transparency and accessibility of tariffs

**Price of electricity (cents per kilowatt-hour)***

Price based on monthly bill for commercial warehouse in case study

**Price of electricity is not included in the calculation of distance to frontier nor ease of doing business ranking*

The warehouse (*continued)*:

- Has two stories, both above ground, with a total surface area of approximately 1,300.6 square meters (14,000 square feet). The plot of land on which it is built is 929 square meters (10,000 square feet).
- Is used for storage of goods.

**Assumptions about the electricity connection**

The electricity connection:

- Is a permanent one.
- Is a three-phase, four-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection (where the voltage is 120/208 V, the current would be 400 amperes; where it is 230/400 B, the current would be nearly 200 amperes).
- Is 150 meters long. The connection is to either the low-voltage or the medium-voltage distribution network and either overhead or underground, whichever is more common in the area where the warehouse is located.
- Requires works that involve the crossing of a 10-meter road (such as by excavation or overhead lines) but are all carried out on public land. There is no crossing of other owners' private property because the warehouse has access to a road.
- Includes only a negligible length in the customer's private domain.
- Will supply monthly electricity consumption of 26,880 kilowatt-hours (kWh).
- Does not involve work to install the internal electrical wiring. This has already been completed, up to and including the customer's service panel or switchboard and installation of the meter base.

**Assumptions about the monthly consumption**

- It is assumed that the warehouse operates 8 hours a day for 30 days a month, with equipment utilized at 80% of capacity on average, and that there are no electricity cuts (assumed for simplicity). The subscribed capacity of the warehouse is 140 kVA, with a power factor of 1 (1 kVA = 1 kW). The monthly energy consumption is therefore 26,880 kWh, and the hourly consumption 112 kWh (26,880 kWh/30 days/8 hours).
- If multiple electricity suppliers exist, the warehouse is served by the cheapest supplier.
- Tariffs effective in March of the current year are used for calculation of the price of electricity for the warehouse.

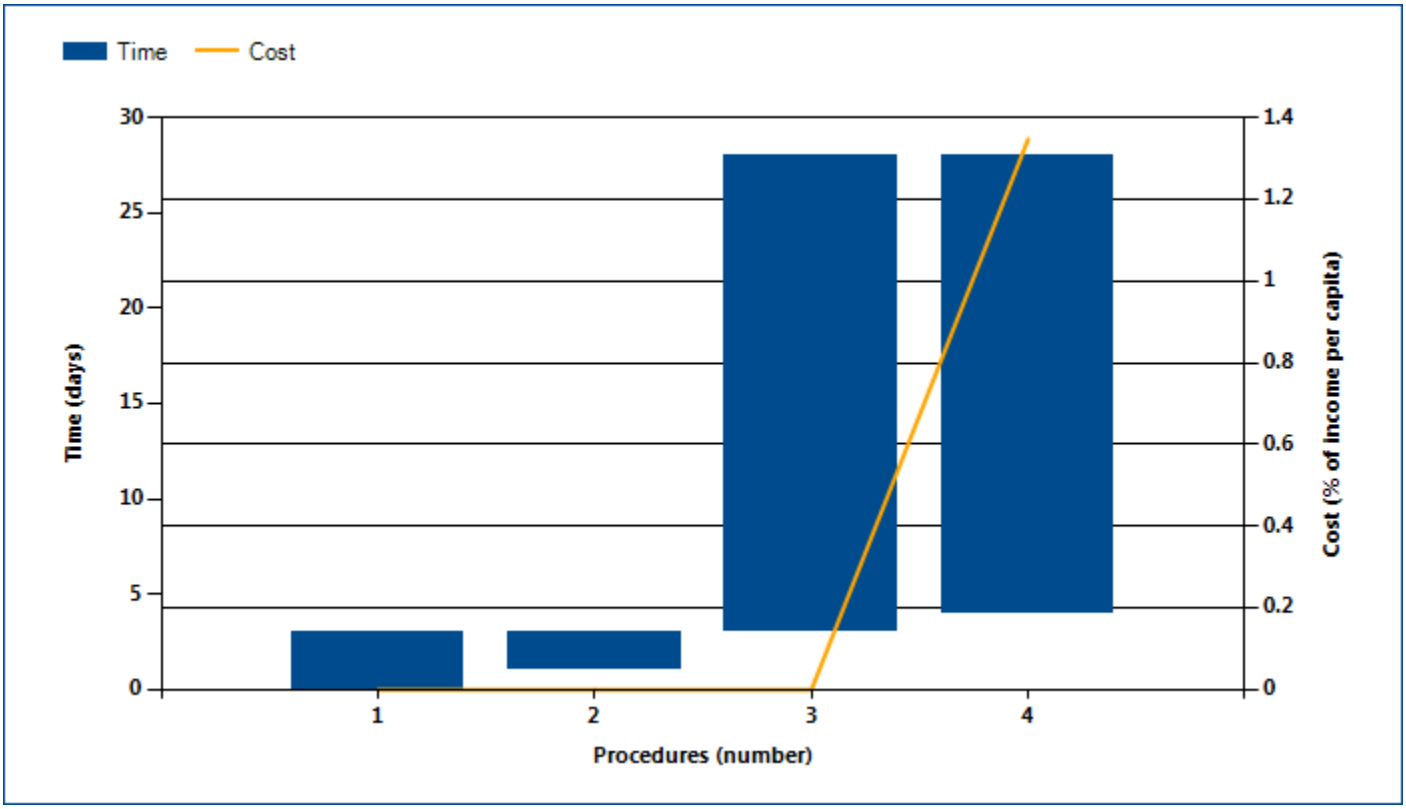
## GETTING ELECTRICITY

### Where does the economy stand today?

What does it take to obtain a new electricity connection in Hong Kong SAR, China? According to data collected by *Doing Business,* getting electricity there requires 4.00 procedures, takes 28.00 days and costs 1.30% of income per capita (figure 4.1).

Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 4.1 What it takes to obtain an electricity connection in Hong Kong SAR, China

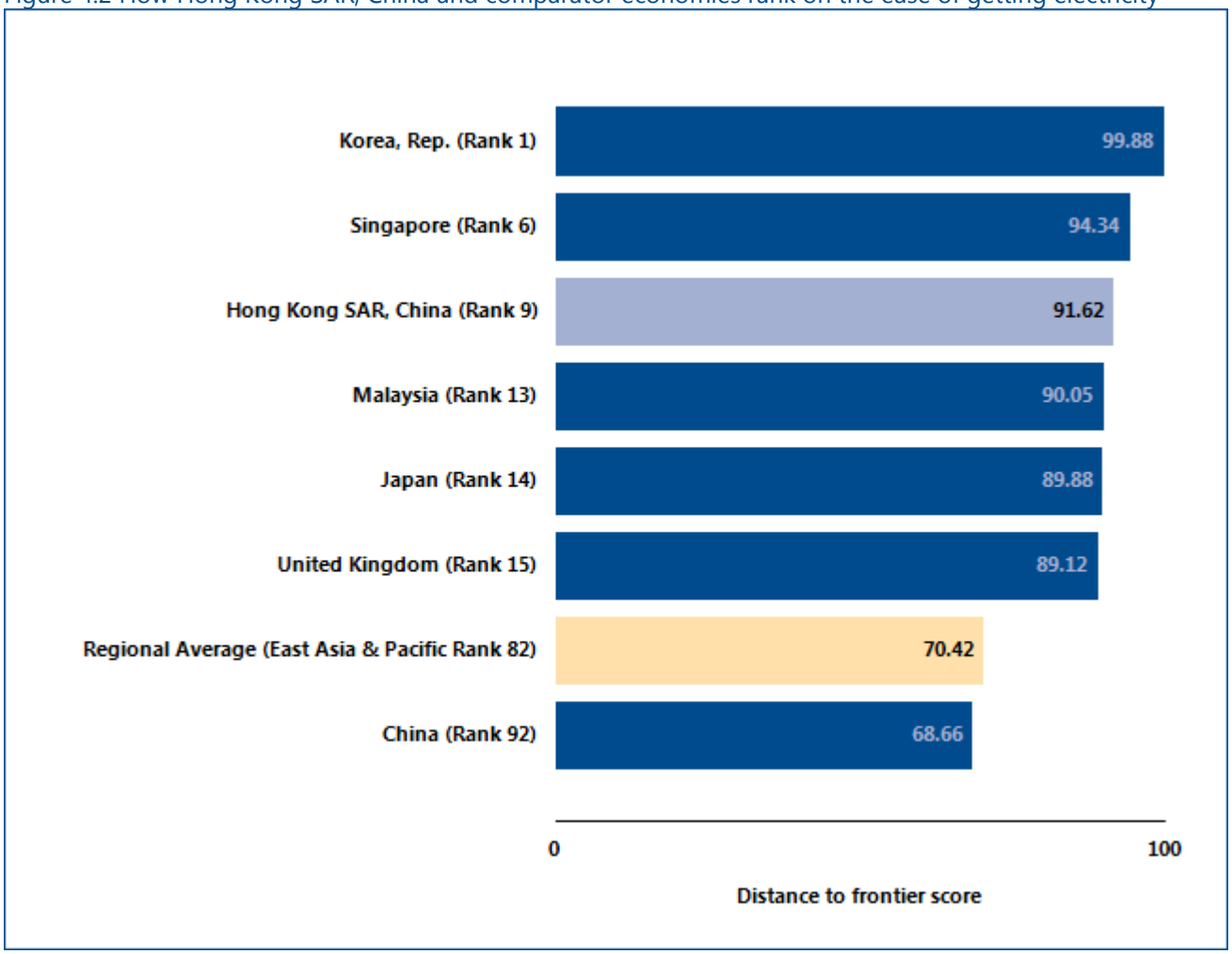



*Source: Doing Business* database.
*Note:* Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (http://www.doingbusiness.org). For details on the procedures reflected here, see the summary at the end of this chapter.

## GETTING ELECTRICITY

Globally, Hong Kong SAR, China stands at 9 in the ranking of 189 economies on the ease of getting electricity (figure 4.2). The rankings for comparator economies and the regional average ranking provide another perspective in assessing how easy it is for an entrepreneur in Hong Kong SAR, China to connect a warehouse to electricity.

Figure 4.2 How Hong Kong SAR, China and comparator economies rank on the ease of getting electricity




*Source: Doing Business* database.

## GETTING ELECTRICITY

Obtaining an electricity connection is essential to enable a business to conduct its most basic operations. In many economies the connection process is complicated by the multiple laws and regulations involved—covering service quality, general safety, technical standards, procurement practices and internal wiring installations. In an effort to ensure safety in the connection process while keeping connection costs reasonable, governments around the world have worked to consolidate requirements for obtaining an electricity connection. What reforms in getting electricity has *Doing Business* recorded in Hong Kong SAR, China (table 4.1)?

Table 4.1 How has Hong Kong SAR, China made getting electricity easier—or not?
By *Doing Business* report year from DB2011 to DB2016

| DB year | Reform |
|---|---|
| **DB2012** | Hong Kong SAR (China) made getting electricity easier by increasing the efficiency of public agencies and streamlining the utility's procedures with other government agencies. |
| **DB2016** | The utility in Hong Kong SAR, China, made getting electricity easier by streamlining the process for reviewing connection applications and for completing the connection works and meter installation. In addition, the time needed to issue an excavation permit was reduced. |

*Source: Doing Business* database.

## GETTING ELECTRICITY

### What are the details?

The indicators reported here for Hong Kong SAR, China are based on a set of specific procedures—the steps that an entrepreneur must complete to get a warehouse connected to electricity by the local distribution utility—identified by *Doing Business*. Data are collected from the distribution utility, then completed and verified by electricity regulatory agencies and independent professionals such as electrical engineers, electrical contractors and construction companies. The electricity distribution utility surveyed is the one serving the area (or areas) in which warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected.

The procedures are those that apply to a warehouse and electricity connection matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

**OBTAINING AN ELECTRICITY CONNECTION***

| | |
|---|---|
| **Name of utility:** | **CLP Power Hong Kong Ltd.** |
| **Price of electricity (US cents per kWh):** | **16** |
| **City:** | **Hong Kong** |

*Price is calculated as a monthly consumption of 26,880 kWh for business customers, based on a standardized case study adopted by the getting electricity methodology. *Doing Business* measures the price of electricity but does not include these data when calculating the distance to frontier score for getting electricity or the ranking on the ease of getting electricity.

Table 4.2 Summary of time, cost and procedures for getting electricity in Hong Kong SAR, China

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| 1 | **Submit application to CLP Power and await technical conditions**<br><br>Internal wiring works before connection of supply should be carried out by a Registered Electrical Worker (REW) or a team of electricians led by a REW . When it comes to the stage that supply is connected (e.g. for testing or alteration after supply connection), the internal wiring works should be carried out by the REW.]<br><br>The Registered Electrical Contractor (REC) and the REW should be registered with the Electrical and Mechanical Services Department (EMSD) of the Hong Kong SAR Government (www.emsd.gov.hk). The clients requesting electricity supply need to complete a supply application form and provide a document for identity verification (Copy of identity or Business Registration Certificate).<br><br>The application form can serve the purpose of a supply contract. If the client signs on the application form, it implies that they accept our supply conditions. The supply conditions are detailed in the "Supply Rule", which can be obtained in our Company website.<br>The client can submit the application for electricity connection with CLP Power Ltd. online, in person, by mail, email, fax, or on the phone.<br>https://www.clponline.com.hk/myHome/CustomerService/OpenAccount/Pages/Default.aspx | 3 calendar days | HKD 0 |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | CLP Power usually keep in close contact with prospective new customers so that a lot of supply provision preparation work would have been commenced/completed prior to receiving the actual new supply application from the new customers, thereby supply is always available before the occupant moves in.<br><br>The utility conducts an inspection of the site after receiving the application to study the specifics of the connection (possibility to connect directly to existing network or need for an expansion). After that, it formulates a supply project including network design and cable route selection after inspection. This is the Project Planning phase.<br>The client does not have to await an estimate of connection fees.<br><br>*Agency: CLP Power Ltd.* | | |
| **2** | *** Receive external inspection by CLP Power**<br><br>Site inspection is required for preparing the supply scheme. It is part of CLP Power's work in procedure 1, and interface with the client is not necessary for the inspection.<br><br>*Agency: CLP Power Ltd.* | 1 calendar day | HKD 0 |
| **3** | **Receive external works from CLP Power**<br><br>(a) Application for excavation permit<br><br>An excavation permit is required for the excavation of cable trench in the public areas. The utility is required to apply to the relevant government departments for the permit.<br><br>The excavation permit will be applied for after the project planning stage. Since the permit will specify a limited work period, before applying for the permit, the utility will confirm with the client the target supply date and the target completion date of the work required by the client e.g. duct and draw pit. The excavation permit application cost is paid by the company and is not charged to clients as part of their cost for connection.<br><br>Efforts have been made to reduce the time to obtain an excavation permit. The efforts consisted of setting up a liaison group with representatives of four relevant government departments, viz. Highways Department, Hong Kong Police Force, Transport Department and Economic Analysis & Business Facilitation Unit, and CLP Power Hong Kong Limited to examine and rationalize the procedures related to applications for excavation permits in connection with supply of electricity for 2-storey warehouses or similar industrial buildings. As a | 25 calendar days | HKD 0 |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | result, the Highways Department, the Hong Kong Police Force and the Transport Department commit to process a proposed temporary traffic arrangement within 10 days.<br><br>(b) Installation Work<br><br>Processing time includes LV cable laying and jointing work on a trench (150m) with road crossing. (Construction phase)<br><br>It excludes the advance notification for commencement of the works submitted to government departments after obtaining the excavation permit. This is also a time taken for manpower mobilization and material preparation. This is the Resource programming phase.<br><br>*Agency: CLP Power Ltd.* | | |
| **4** | *** Receive meter installation and final connection from CLP Power**<br><br>The utility then inspects the internal wiring and installs the meter. The Registered Electrical Worker representing the client must be present.<br>In fact, "according to the Electricity (Wiring) Regulations, Cap. 406E, any fixed electrical installation shall, after completion and before it is energized for use, be inspected, tested and certified with Work Completion Certificate (Form WR1) by a registered electrical worker and contractor. In case of any repair, alteration or addition to a fixed electrical installation, only the affected parts of the installation need to be inspected, tested and certified with Work Completion Certificate (Form WR1) by a registered electrical worker and contractor. A copy of the Work Completion Certificate (Form WR1) together with copies of Certificate of Registration of Electrical Contractor and Certificate of Registration of Electrical Worker should be forwarded to the Licensing Office as proof of compliance with the electricity safety requirements."<br><br>The Registered Electrical Worker in charge of the internal installation and final inspection signs the WR1 form, and submits it to the utility at the appointment for electricity turn-on.<br>The client requests a final inspection for meter installation from CLP Power through the installation inspection appointment system of the utility. The final inspection does not cover the entire internal wiring, but only the interface with the external circuit. The WR1 form is enough to guarantee the wiring has been done in accordance with the electricity regulations.<br><br>The meter will be installed and supply connected after satisfactory inspection of the internal wiring (not entire inspection; only for the interface with external network). The service pledge is to install the meter within the same day of the satisfactory inspection of the internal wiring.<br><br>*Agency: CLP Power Ltd.* | 1 calendar day | HKD 4,313.84 |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | | | |

* Takes place simultaneously with another procedure.
*Source: Doing Business* database.

## GETTING ELECTRICITY

### Reliability of supply and transparency of tariffs index

The reliability of supply and transparency of tariffs index encompasses quantitative data on the duration and frequency of power outages as well as qualitative information on the mechanisms put in place by the utility for monitoring power outages and restoring power supply, the reporting relationship between the utility and the regulator for power outages, the transparency and accessibility of tariffs and whether the utility faces a financial deterrent aimed at limiting outages (such as a requirement to compensate customers or pay fines when outages exceed a certain cap).

The index ranges from 0 to 8, with higher values indicating greater reliability of electricity supply and greater transparency of tariffs.

*Doing Business* uses the system average interruption duration index (SAIDI) and the system average interruption frequency index (SAIFI) to measure the duration and frequency of power outages in the largest business city of each economy (for 11 economies the data are also collected for the second largest business city). SAIDI is the average total duration of outages over the course of a year for each customer served, while SAIFI is the average number of service interruptions experienced by a customer in a year. Annual data (covering the calendar year) are collected from distribution utility companies and national regulators on SAIDI and SAIFI. Both SAIDI and SAIFI estimates include load shedding.

Table 4.3 Reliability of Supply and Transparency of Tariff Index in Hong Kong SAR, China

| | Answer | Score |
|---|---|---|
| Reliability of supply and transparency of tariff index (0-8) | | 7.00 |
| Total duration and frequency of outages per customer a year (0-3) | | 3.00 |
| System average interruption duration index (SAIDI) | 0.4 | |
| System average interruption frequency index (SAIFI) | 0.2 | |
| Mechanisms for monitoring outages (0-1) | | 1.0 |
| Does the distribution utility use automated tools to monitor outages? | Yes | |
| Mechanisms for restoring service (0-1) | | 1.0 |
| Does the distribution utility use automated tools to restore service? | Yes | |
| Regulatory monitoring (0-1) | | 1.00 |
| Does a regulator—that is, an entity separate from the utility—monitor the utility's performance on reliability of supply? | Yes | |
| Financial deterrents aimed at limiting outages (0-1) | | 0.00 |
| Does the utility either pay compensation to customers or face fines by the regulator (or both) if outages exceed a certain cap? | No | |
| Communication of tariffs and tariff changes (0-1) | | 1.00 |
| Are effective tariffs available online? | Yes | |
| Link to the website, if available online | https://www.clp.c | |

| | Answer | Score |
|---|---|---|
| | om.hk/en/customer-service/tariff/business-and-other-customers | |
| Are customers notified of a change in tariff ahead of the billing cycle? | Yes | |

*Source: Doing Business* database.

*Note:* If data on power outages is not collected or if the SAIFI index or SAIDI index are above the threshold of 100, the economy is not eligible to obtain a score in the Reliability of Supply and Transparency of Tariff Index. If SAIDI and SAIFI are 12 (equivalent to an outage of one hour each month) or below, a score of 1 is assigned. If SAIDI and SAIFI are 4 (equivalent to an outage of one hour each quarter) or below, 1 additional point is assigned. Finally, if SAIDI and SAIFI are 1 (equivalent to an outage of one hour per year) or below, 1 more point is assigned. *Doing Business* measures the price of electricity but does not include these data when calculating the distance to frontier score for getting electricity or the ranking on the ease of getting electricity. The price of electricity is measured in cents per kilowatt-hour. On the basis of the assumptions about monthly consumption, a monthly bill for a commercial warehouse in the largest business city of the economy is computed for the month of March. As noted, the warehouse uses electricity 30 days a month, from 9:00 a.m. to 5:00 p.m., so different tariff schedules may apply if a time-of-use tariff is available.

# REGISTERING PROPERTY

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans—limiting access to finance.

## What do the indicators cover?

*Doing Business* records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. In addition, this year *Doing Business* adds a new measure to the set of registering property indicators, an index of the quality of the land administration system in each economy. The ranking of economies on the ease of registering property is determined by sorting their distance to frontier scores for registering property. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

The parties (buyer and seller):

- Are limited liability companies, 100% domestically and privately owned and perform general commercial activities and are located in the economy's largest business city[2].
- Have 50 employees each, all of whom are nationals.

The property (fully owned by the seller):

- Has a value of 50 times income per capita. The sale price equals the value and entire property will be transferred.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.
- Has no mortgages attached, has been under the same ownership for the past 10 years.
- Consists of 557.4 square meters (6,000 square feet) of land and a 10-year-old, 2-story warehouse of 929 square meters (10,000 square feet). The warehouse is in good condition and complies with all safety standards, building codes and legal requirements. There is no heating system.

**WHAT THE REGISTERING PROPERTY INDICATORS MEASURE**

**Procedures to legally transfer title on immovable property (number)**

Preregistration (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)

Registration in the economy's largest business city[2]

Postregistration (for example, filing title with the municipality)

**Time required to complete each procedure (calendar days)**

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day.

Procedure considered completed once final document is received

No prior contact with officials

**Cost required to complete each procedure (% of property value)**

Official costs only, no bribes

No value added or capital gains taxes included

**Quality of land administration index (0-30)**

[2] For the 11 economies with a population of more than 100 million, data for a second city have been added.

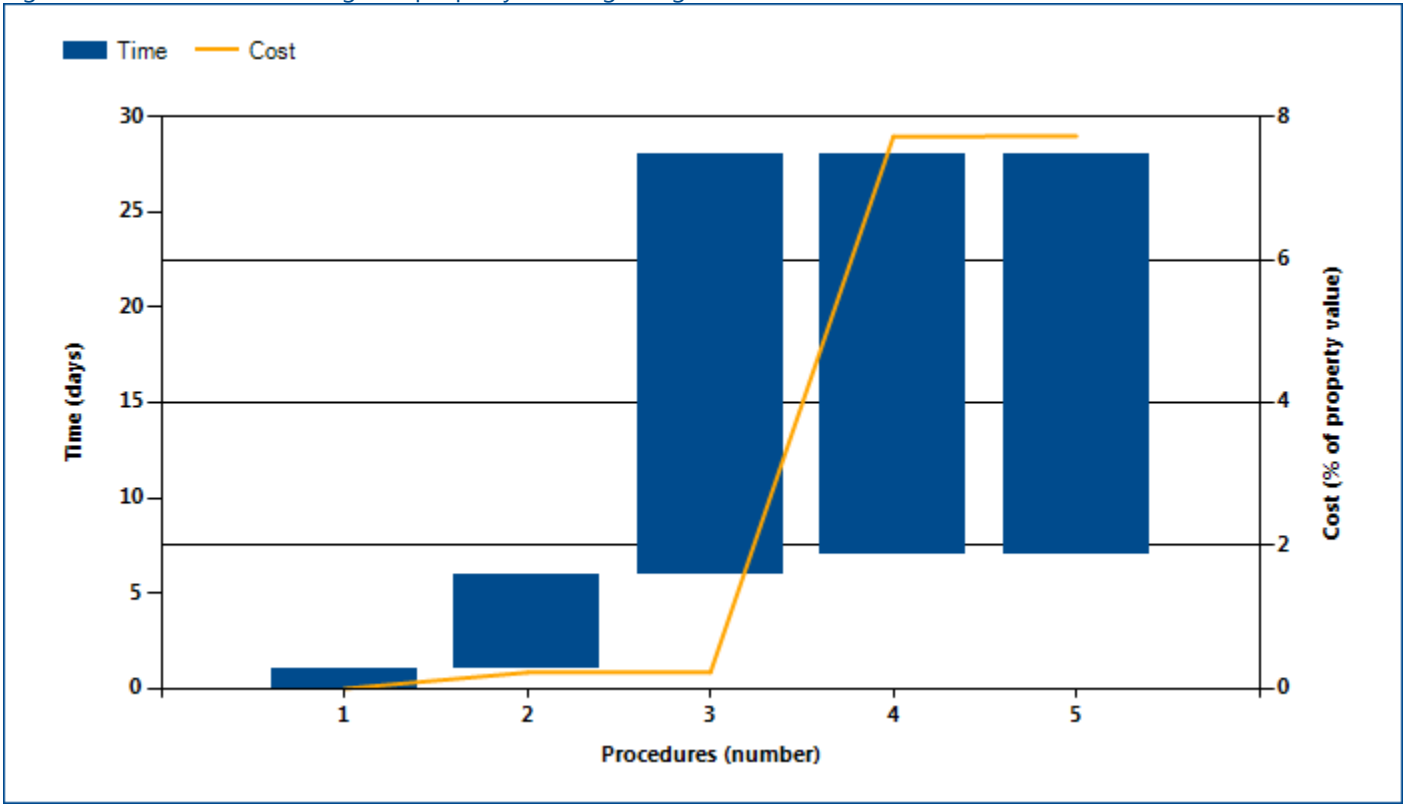
## REGISTERING PROPERTY

### Where does the economy stand today?

What does it take to complete a property transfer in Hong Kong SAR, China? According to data collected by *Doing Business*, registering property there requires 5.00 procedures, takes 27.50 days and costs 7.70% of the property value (figure 5.1).

Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 5.1 What it takes to register property in Hong Kong SAR, China

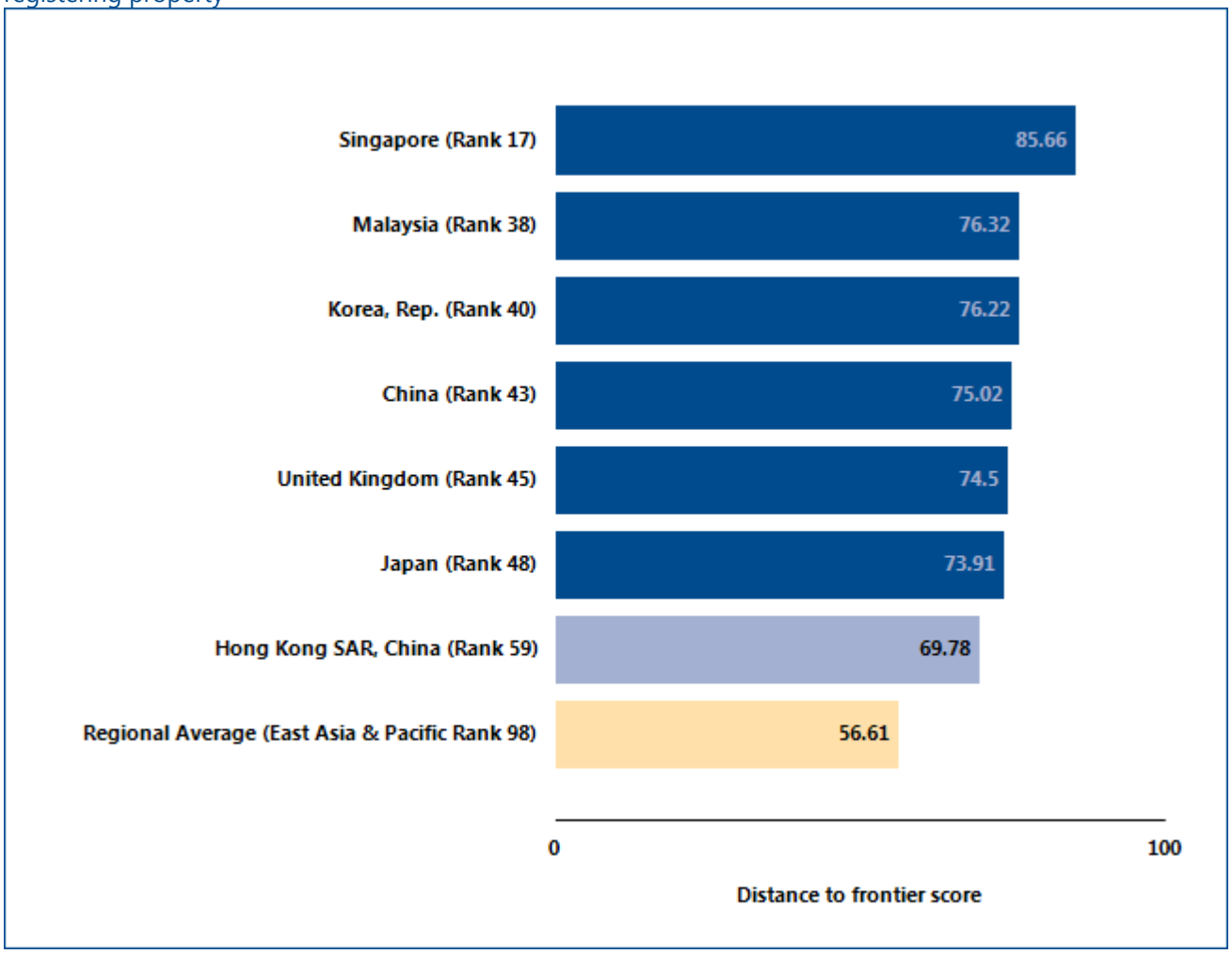



*Source: Doing Business* database.
*Note:* Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the registering property indicators, see the *Doing Business* website (http://www.doingbusiness.org). For details on the procedures reflected here, see the summary at the end of this chapter.

## REGISTERING PROPERTY

Globally, Hong Kong SAR, China stands at 59 in the ranking of 189 economies on the ease of registering property (figure 5.2). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Hong Kong SAR, China to transfer property.

Figure 5.2 How Hong Kong SAR, China and comparator economies rank on the ease of registering property




*Source: Doing Business* database.

## REGISTERING PROPERTY

Economies worldwide have been making it easier for entrepreneurs to register and transfer property—such as by computerizing land registries, introducing time limits for procedures and setting low fixed fees. Many have cut the time required substantially—enabling buyers to use or mortgage their property earlier. What property registration reforms has *Doing Business* recorded in Hong Kong SAR, China (table 5.1)?

Table 5.1 How has Hong Kong SAR, China made registering property easier—or not?
By *Doing Business* report year from DB2011 to DB2016

| **DB year** | Reform |
|---|---|
| **DB2014** | Hong Kong SAR, China, made transferring property more costly by increasing the stamp duty. |

*Source: Doing Business* database.
*Note:* For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.

## REGISTERING PROPERTY

### What are the details?

The indicators reported here are based on a set of specific procedures—the steps that a buyer and seller must complete to transfer the property to the buyer's name—identified by *Doing Business* through information collected from local property lawyers, notaries and property registries. These procedures are those that apply to a transaction matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

**STANDARD PROPERTY TRANSFER**

| | |
|---|---|
| **Property value:** | **HKD 15,992,921** |
| **City:** | **Hong Kong** |

Table 5.2 Summary of time, cost and procedures for registering property in Hong Kong SAR, China

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| 1 | **Purchaser's solicitor does a land search at the Land Registry**<br><br>It is a common Procedure that the Buyer's solicitor will conduct a land search before execution of the Agreement for Sale and Purchase (ASP) to ensure that the previous registration title of the property is complete and that no unusual encumbrance is registered against the property. All land records are available for search by the public by doing an online search. The service hours of an online search services have been extended from 16 to 20 hours daily since August 2010. In 2010/11, searches conducted online constituted about 91% of the total search volume. It is a common Procedure that the Purchaser's solicitor conducts a land search online on the day of execution of the agreement for sale and purchase as a due diligence check. The prescribed fee is HK$25 for a full land search (which provides all historical and current data affecting the property) and HK$10 for an up-date land search (which provides the current data). This will take about one (1) day and in fact, immediately if it is done through the online internet service provided by the Land Registry, which many law firms in Hong Kong would have subscribed to such service.<br><br>*Agency: Land Registry and online* | Less than a day (online procedure) | HKD 25 |
| 2 | **Preparation of (i) Sale and Purchase Agreement and (ii) Assignment**<br><br>The Property Assignment will give the purchaser legal title and possession of the property.<br><br>*Agency: Solicitors' firm* | 5 days | HKD 450 (Assignment registration fee) + HKD 30,000 + 0.25% of value exceeding HKD 5,000,000 (solicitor's fee |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | | | according to Solicitors - General- Costs Rules (Cap. 159G) which is negotiable). |
| 3 | **Execution of Sale and Purchase Agreement and filing at the Land Registry**<br><br>The Purchaser's solicitor registers the executed agreement for sale and purchase with the Land Registry. At this time, the Purchaser usually gives a 10% down payment on the property and has time to arrange financing for the remainder owed. During the 30-day period, the Purchaser's solicitor prepares an Assignment deed. In addition, during this period of time, the Buyer's solicitor will complete perusal of title deeds and clarify any title issues with the Seller's solicitors and confirm good title to the Buyer (through a final land search on the property to ensure there has not been any competing deed lodged with the Land Registry after the executed agreement for sale and purchase has been registered with the Land Registry).<br><br>*Agency: Land Registry* | 14 days - 30 days | HKD 210 |
| 4 | *** The Purchaser's solicitor settles the stamp duty payable with the Stamp Office via e-stamping**<br><br>All necessary forms and documents for stamping can be submitted online (www.gov.hk/estamping.) or in paper. The process of submission and payment is straight forward, details of the transaction are submitted over the internet, a stamp invoice is issued immediately which can be printed. After the online payment of stamp duty, solicitors can print the stamp certificates and attach them to the instruments as evidence of stamping. Payment of the stamp duty can be done using different methods, (PPS, MasterCard, and Visa). The current payment limits for credit cards are HK$5,000. If the duty amount exceeds the payment limits, payment can be made offline by printing a payment notice for settlement by telephone, bank ATM, internet or in person at the Stamp Office or Post Offices. After payment of stamp duty, a stamp certificate will be issued instantly and available for printing. Each stamp certificate will have its own "Stamp Certificate Number".<br>For online payments and e-stamping, it is not required to present the original instruments to the Stamp Office. Details of the e-Stamping service in Hong Kong are available at www.ird.gov.hk/eng/tax/e_stamp.htm.<br><br>Both methods fulfill the stamping requirement equally. Under the conventional method no stamp certificate is issued, instead, the relevant document (e.g. the assignment) would be stamped by the Stamp Office with the value of stamp duty paid. | Less than a day (online procedure) | 7.5% stamp duty for non-residential property |

| No. | Procedure | Time to complete | Cost to complete |
|---|---|---|---|
| | *Agency: Stamp Office* | | |
| **5** | *** Purchaser's solicitor registers the Property Assignment at the Land Registry**<br><br>The duly stamped Assignment will then be presented by the solicitors to the Land Registry. The purchaser's solicitor shall register the Assignment at the Land Registry within 30 days from the date of Assignment so as to preserve its priority under the law. After receipt of the original Assignment by the Land Registry,the Land Registry will complete the registration and return the Assignment to the solicitor's office. The title is legally property of the purchaser once the Property Assignment is submitted to the Land Registry on the first day. The remaining days (or months) account for the Registry to document the transfer in microfilm and other media.<br><br>*Agency: Land Registry* | 1 day | HKD 450 |

* Takes place simultaneously with another procedure.
*Source: Doing Business* database.
*Note:* Online procedures account for 0.5 days in the total time calculation.

## REGISTERING PROPERTY

### Quality of land administration

The quality of land administration index is the sum of the scores on the reliability of infrastructure, transparency of information, geographic coverage and land dispute resolution indices.

The index ranges from 0 to 30, with higher values indicating better quality of the land administration system.

If private sector entities were unable to register property transfers in an economy between June 2014 and June 2015, the economy receives a "no practice" mark on the procedures, time and cost indicators. A "no practice" economy receives a score of 0 on the quality of land administration index even if its legal framework includes provisions related to land administration.

Table 5.3 Summary of quality of land administration in Hong Kong SAR, China

| | Answer | Score |
|---|---|---|
| Quality of the land administration index (0-30) | | 23.00 |
| Reliability of infrastructure index (0-8) | | 5.00 |
| What is the institution in charge of immovable property registration? | Land Registry | |
| In what format are the majority of title or deed records kept in the largest business city—in a paper format or in a computerized format (scanned or fully digital)? | Computer/Scanned | 1.0 |
| Is there an electronic database for checking for encumbrances (liens, mortgages, restrictions and the like)? | Yes | 1.0 |
| Institution in charge of the plans showing legal boundaries in the largest business city: | The Survey and Mapping Office of the Lands Department | |
| In what format are the majority of maps of land plots kept in the largest business city—in a paper format or in a computerized format (scanned or fully digital)? | Computer/Fully digital | 2.0 |
| Is there an electronic database for recording boundaries, checking plans and providing cadastral information (geographic information system)? | Yes | 1.0 |
| Is the information recorded by the immovable property registration agency and the cadastral or mapping agency kept in a single database, in different but linked databases or in separate databases? | Separate databases | 0.0 |
| Do the immovable property registration agency and cadastral or mapping agency use the same identification number for properties? | No | 0.0 |
| Transparency of information index (0–6) | | 4.50 |
| Who is able to obtain information on land ownership at the agency in charge of immovable property registration in the largest business city? | Anyone who pays the official fee | 1.0 |

| | Answer | Score |
|---|---|---|
| Is the list of documents that are required to complete any type of property transaction made publicly available–and if so, how? | Yes, online | 0.5 |
| Link for online access: | http://www.iris.gov.hk | |
| Is the applicable fee schedule for any property transaction at the agency in charge of immovable property registration in the largest business city made publicly available–and if so, how? | Yes, online | 0.5 |
| Link for online access: | http://www.landreg.gov.hk/en/services/reg_fee.htm | |
| Does the agency in charge of immovable property registration commit to delivering a legally binding document that proves property ownership within a specific time frame–and if so, how does it communicate the service standard? | Yes, online | 0.5 |
| Link for online access: | http://www.landreg.gov.hk/en/about/perform.htm | |
| Is there a specific and separate mechanism for filing complaints about a problem that occurred at the agency in charge of immovable property registration? | No | 0.0 |
| Contact information: | | |
| Are there publicly available official statistics tracking the number of transactions at the immovable property registration agency? | Yes | 0.5 |
| Number of property transfers in the largest business city in 2014: | 98,758 | |
| Who is able to consult maps of land plots in the largest business city? | Freely accessible by anyone | 0.5 |
| Is the applicable fee schedule for accessing maps of land plots made publicly available—and if so, how? | Yes, online | 0.5 |
| Link for online access: | http://www.landsd.gov.hk/mapping/en/digital-map/common/doc/pricelist.pdf | |
| Does the cadastral or mapping agency commit to delivering an updated map within a specific time frame—and if so, how does it communicate the service standard? | Yes, online | 0.5 |
| Link for online access: | http://www.landsd.gov.hk/en/imag | |

| | Answer | Score |
|---|---|---|
| | es/doc/pledge2014_e.pdf) | |
| Is there a specific and separate mechanism for filing complaints about a problem that occurred at the cadastral or mapping agency? | No | 0.0 |
| Contact information: | | |
| Geographic coverage index (0–8) | | 8.00 |
| Are all privately held land plots in the economy formally registered at the immovable property registry? | Yes | 2.0 |
| Are all privately held land plots in the largest business city formally registered at the immovable property registry? | Yes | 2.0 |
| Are all privately held land plots in the economy mapped? | Yes | 2.0 |
| Are all privately held land plots in the largest business city mapped? | Yes | 2.0 |
| Land dispute resolution index (0–8) | | 5.50 |
| Does the law require that all property sale transactions be registered at the immovable property registry to make them opposable to third parties? | Yes | 1.5 |
| Is the system of immovable property registration subject to a state or private guarantee? | No | 0.0 |
| Is there a specific compensation mechanism to cover for losses incurred by parties who engaged in good faith in a property transaction based on erroneous information certified by the immovable property registry? | No | 0.0 |
| Does the legal system require a control of legality of the documents necessary for a property transaction (e.g., checking the compliance of contracts with requirements of the law)? | Yes | 0.5 |
| If yes, who is responsible for checking the legality of the documents? | Lawyer. | |
| Does the legal system require verification of the identity of the parties to a property transaction? | Yes | 0.5 |
| If yes, who is responsible for verifying the identity of the parties? | Lawyer. | |
| Is there a national database to verify the accuracy of identity documents? | Yes | 1.0 |
| For a standard land dispute between two local businesses over tenure rights of a property worth 50 times gross national income (GNI) per capita and located in the largest business city, what court would be in charge of the case in the first instance? | Hong Kong District Court | |
| How long does it take on average to obtain a decision from the first- | Between 1 and 2 | 2.0 |

| | Answer | Score |
|---|---|---|
| instance court for such a case (without appeal)? | years | |
| Are there any statistics on the number of land disputes in the first instance? | No | 0.0 |
| Number of land disputes in the largest business city in 2014: | | |

*Source: Doing Business* database.

# GETTING CREDIT

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders' rights to view a potential borrower's financial history (positive or negative)—valuable information to consider when assessing risk. And they permit borrowers to establish a good credit history that will allow easier access to credit. Sound collateral laws enable businesses to use their assets, especially movable property, as security to generate capital—while strong creditors' rights have been associated with higher ratios of private sector credit to GDP.

## What do the indicators cover?

*Doing Business* assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 sets of indicators. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a credit registry or a credit bureau. The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. *Doing Business* uses two case scenarios, Case A and Case B, to determine the scope of the secured transactions system, involving a secured borrower and a secured lender and examining legal restrictions on the use of movable collateral (for more details on each case, see the Data Notes section of the *Doing Business 2016* report). These scenarios assume that the borrower:

- Is a private limited liability company.
- Has its headquarters and only base of operations in the largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.
- Has up to 50 employees.
- Is 100% domestically owned, as is the lender.

The ranking of economies on the ease of getting credit is determined by sorting their distance to frontier scores for getting credit. These scores are the distance to frontier score for the strength of legal rights index and the depth of credit information index.

### WHAT THE GETTING CREDIT INDICATORS MEASURE

**Strength of legal rights index (0–12)**

Rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

**Depth of credit information index (0–8)**

Scope and accessibility of credit information distributed by credit bureaus and credit registries

**Credit bureau coverage (% of adults)**

Number of individuals and firms listed in largest credit bureau as percentage of adult population

**Credit registry coverage (% of adults)**

Number of individuals and firms listed in credit registry as percentage of adult population

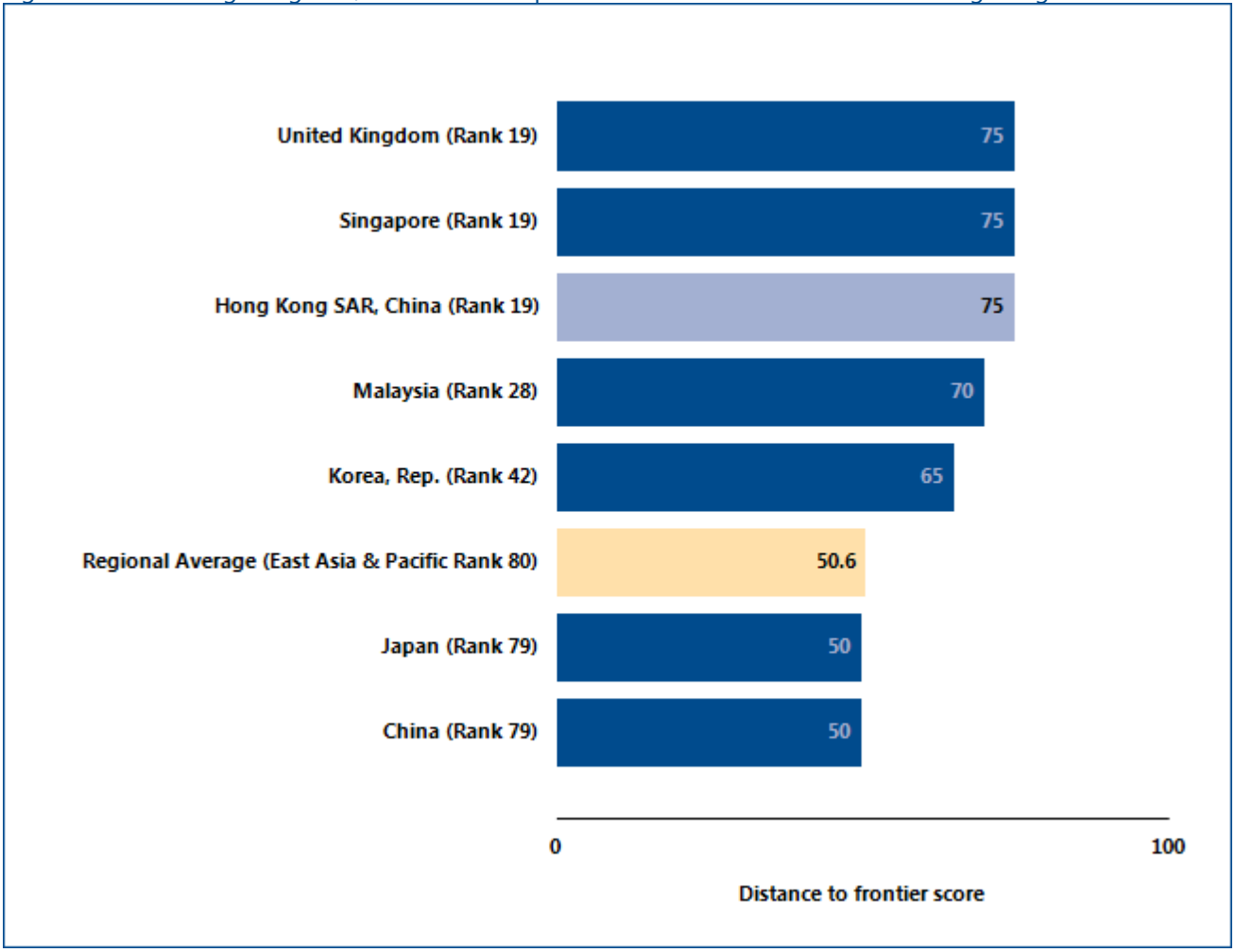
## GETTING CREDIT

### Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Hong Kong SAR, China facilitate access to credit? The economy has a score of 7.00 on the depth of credit information index and a score of 8.00 on the strength of legal rights index (see the summary of scoring at the end of this chapter for details). Higher scores indicate more credit information and stronger legal rights for borrowers and lenders.

Globally, Hong Kong SAR, China stands at 19 in the ranking of 189 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies provide other useful information for assessing how well regulations and institutions in Hong Kong SAR, China support lending and borrowing.

Figure 6.1 How Hong Kong SAR, China and comparator economies rank on the ease of getting credit



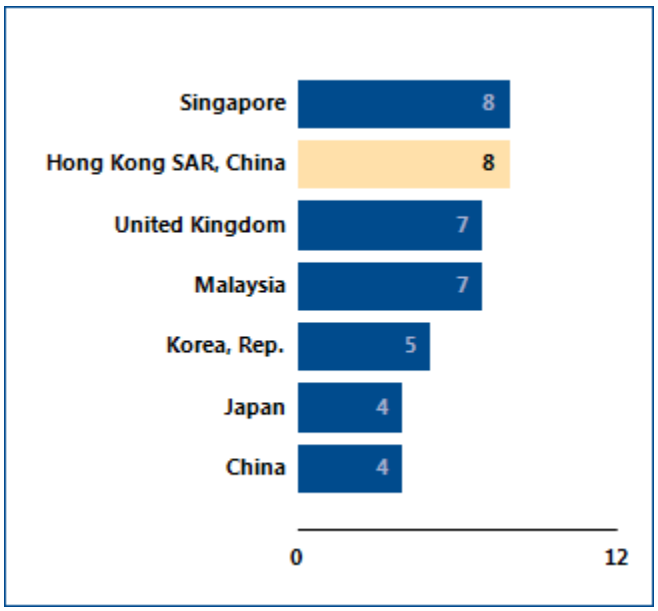

*Source: Doing Business* database.

## GETTING CREDIT

One way to put an economy's score on the getting credit indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 6.2 highlights the score on the strength of legal rights index for Hong Kong SAR, China and shows the scores for comparator economies as well as the regional average score. Figure 6.3 shows the same for the depth of credit information index.

### Figure 6.2 How strong are legal rights for borrowers and lenders?

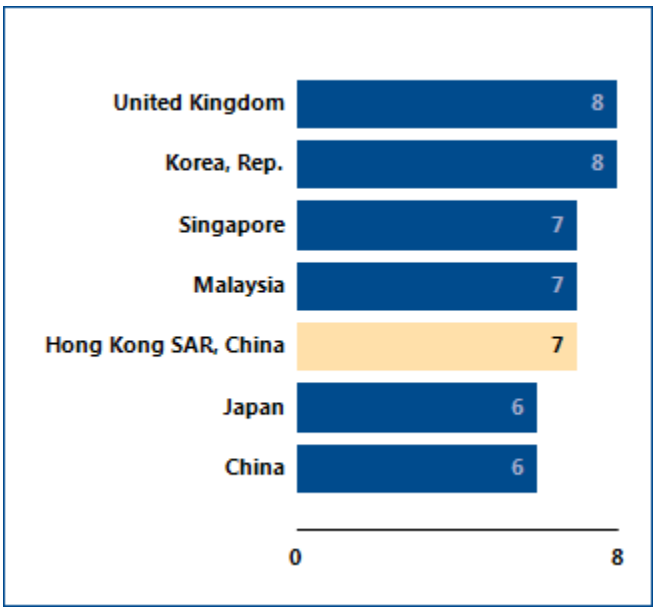
Economy scores on strength of legal rights index




*Source: Doing Business* database.
*Note:* Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate access to credit.

### Figure 6.3 How much credit information is shared—and how widely?

Economy scores on depth of credit information index




*Source: Doing Business* database.
*Note:* Higher scores indicate the availability of more credit information, from either a credit registry or a credit bureau, to facilitate lending decisions. If the credit bureau or registry is not operational or covers less than 5% of the adult population, the total score on the depth of credit information index is 0.

## GETTING CREDIT

When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of credit information, they can increase entrepreneurs' access to credit. What credit reforms has *Doing Business* recorded in Hong Kong SAR, China (table 6.1)?

Table 6.1 How has Hong Kong SAR, China made getting credit easier—or not?
By *Doing Business* report year from DB2011 to DB2016

| DB year | Reform |
|---|---|
| **DB2016** | Hong Kong SAR, China, improved access to credit by implementing a modern collateral registry. |

*Source: Doing Business* database.
*Note:* For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.

## GETTING CREDIT

### What are the details?

The getting credit indicators reported here for Hong Kong SAR, China are based on detailed information collected in that economy. The data on credit information sharing are collected through a survey of a credit registry and/or credit bureau (if one exists). To construct the depth of credit information index, a score of 1 is assigned for each of 8 features of the credit registry or credit bureau (see summary of scoring below).

The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. For the strength of legal rights index, a score of 1 is assigned for each of 10 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law.

| **Strength of legal rights index (0–12)** | **Index score: 8.00** |
|---|---|
| Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy? | No |
| Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral? | Yes |
| Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral? | Yes |
| May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets? | Yes |
| Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered? | Yes |
| Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name? | No |
| Does a notice-based collateral registry exist in which all functional equivalents can be registered? | No |
| Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party? | Yes |
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure? | Yes |
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated? | Yes |
| Are secured creditors subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure? Does the law protect secured creditors' rights by providing clear grounds for relief from the stay and/or sets a time limit for it? | No |
| Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction and private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt? | Yes |

| Depth of credit information index (0–8) | Credit bureau | Credit registry | Index score: 7.00 |
|---|---|---|---|
| Are data on both firms and individuals distributed? | Yes | No | 1 |
| Are both positive and negative credit data distributed? | Yes | No | 1 |
| Are data from retailers or utility companies - in addition to data from banks and financial institutions - distributed? | No | No | 0 |
| Are at least 2 years of historical data distributed? (Credit bureaus and registries that distribute more than 10 years of negative data or erase data on defaults as soon as they are repaid obtain a score of 0 for this component.) | Yes | No | 1 |
| Are data on loan amounts below 1% of income per capita distributed? | Yes | No | 1 |
| By law, do borrowers have the right to access their data in the credit bureau or credit registry? | Yes | No | 1 |
| Can banks and financial institutions access borrowers' credit information online (for example, through an online platform, a system-to-system connection or both)? | Yes | No | 1 |
| Are bureau or registry credit scores offered as a value-added service to help banks and financial institutions assess the creditworthiness of borrowers? | Yes | No | 1 |

*Note*: An economy receives a score of 1 if there is a "yes" to either bureau or registry. If the credit bureau or registry is not operational or covers less than 5% of the adult population, the total score on the depth of credit information index is 0.

| Coverage | Credit bureau | Credit registry |
|---|---|---|
| Number of firms | 157,884 | 0 |
| Number of individuals | 4,974,673 | 0 |
| Total | 5,132,557 | 0 |
| Total percentage of adult population | 96.00 | 0.00 |

*Source: Doing Business* database.

# PROTECTING MINORITY INVESTORS

Protecting minority investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. Effective regulations define related-party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed standards of accountability for company insiders.

## What do the indicators cover?

*Doing Business* measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders' rights in corporate governance through another. The ranking of economies on the strength of minority investor protections is determined by sorting their distance to frontier scores for protecting minority investors. These scores are the simple average of the distance to frontier scores for the extent of conflict of interest regulation index and the extent of shareholder governance index. To make the data comparable across economies, a case study uses several assumptions about the business and the transaction.

The business (Buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange (or at least a large private company with multiple shareholders).
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.

The transaction involves the following details:

- Mr. James, a director and the majority shareholder of the company, proposes that the company purchase used trucks from another company he owns.
- The price is higher than the going price for used trucks, but the transaction goes forward.
- All required approvals are obtained, and all required disclosures made, though the transaction is prejudicial to Buyer.
- Shareholders sue the interested parties and the members of the board of directors.

## WHAT THE PROTECTING MINORITY INVESTORS INDICATORS MEASURE

**Extent of disclosure index (0–10)**

Review and approval requirements for related-party transactions; Disclosure requirements for related-party transactions

**Extent of director liability index (0–10)**

Ability of minority shareholders to sue and hold interested directors liable for prejudicial related-party transactions; Available legal remedies (damages, disgorgement of profits, fines, imprisonment, rescission of the transaction)

**Ease of shareholder suits index (0–10)**

Access to internal corporate documents; Evidence obtainable during trial and allocation of legal expenses

***Extent of conflict of interest regulation index (0–10)***

Simple average of the extent of disclosure, extent of director liability and ease of shareholder indices

**Extent of shareholder rights index (0-10)**

Shareholders' rights and role in major corporate decisions

**Extent of ownership and control index (0-10)**

Governance safeguards protecting shareholders from undue board control and entrenchment

**Extent of corporate transparency index (0-10)**

Corporate transparency on ownership stakes, compensation, audits and financial prospects

***Extent of shareholder governance index (0–10)***

Simple average of the extent of shareholders rights, extent of ownership and control and extent of corporate transparency indices

**Strength of investor protection index (0–10)**

Simple average of the extent of conflict of interest regulation and extent of shareholder governance indices

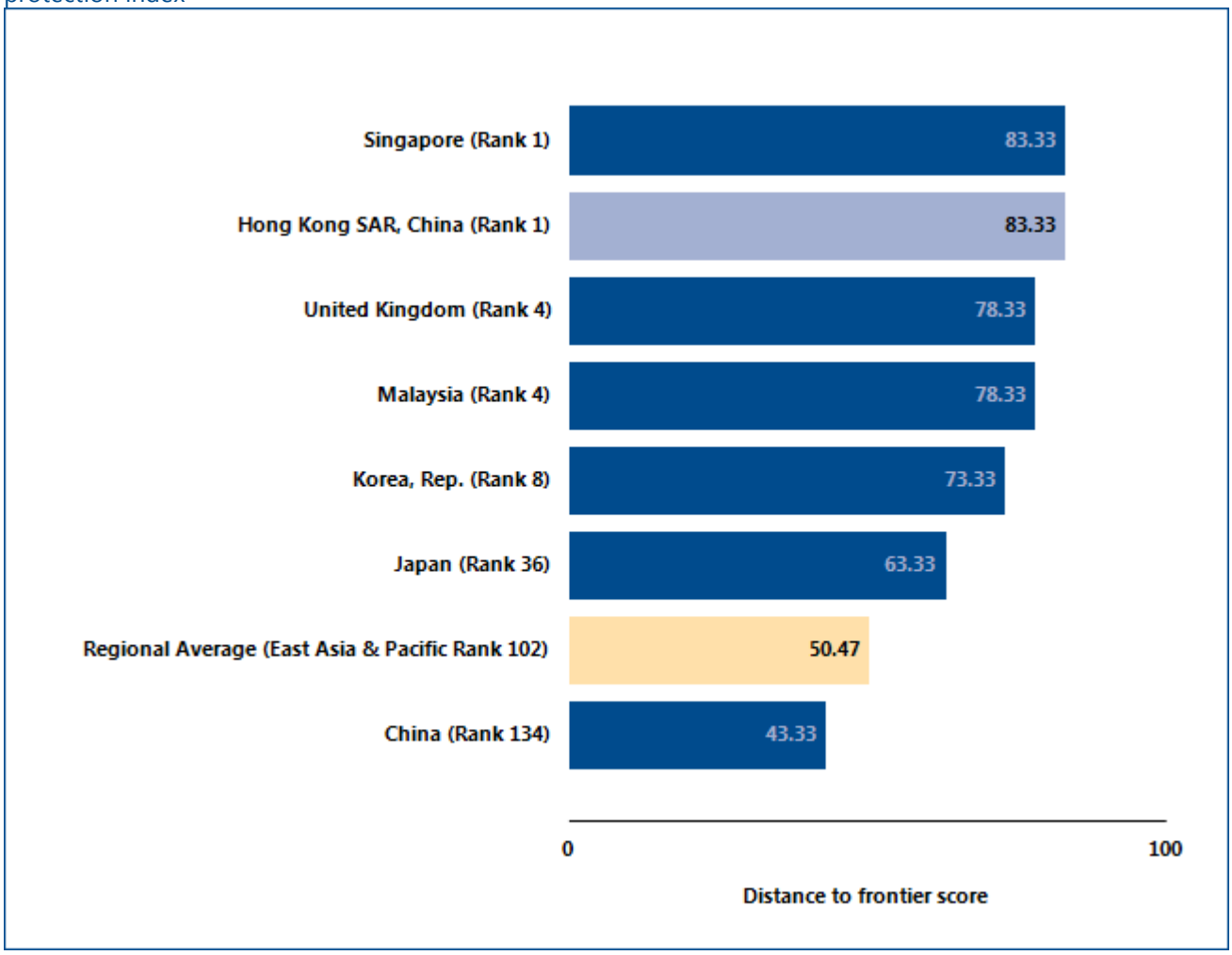
## PROTECTING MINORITY INVESTORS

### Where does the economy stand today?

How strong are minority investor protections against self-dealing in Hong Kong SAR, China? The economy has a score of 8.30 on the strength of minority investor protection index, with a higher score indicating stronger protections.

Globally, Hong Kong SAR, China stands at 1 in the ranking of 189 economies on the strength of minority investor protection index (figure 7.1). While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger minority investor protections against self-dealing in the areas measured.

Figure 7.1 How Hong Kong SAR, China and comparator economies perform on the strength of minority investor protection index



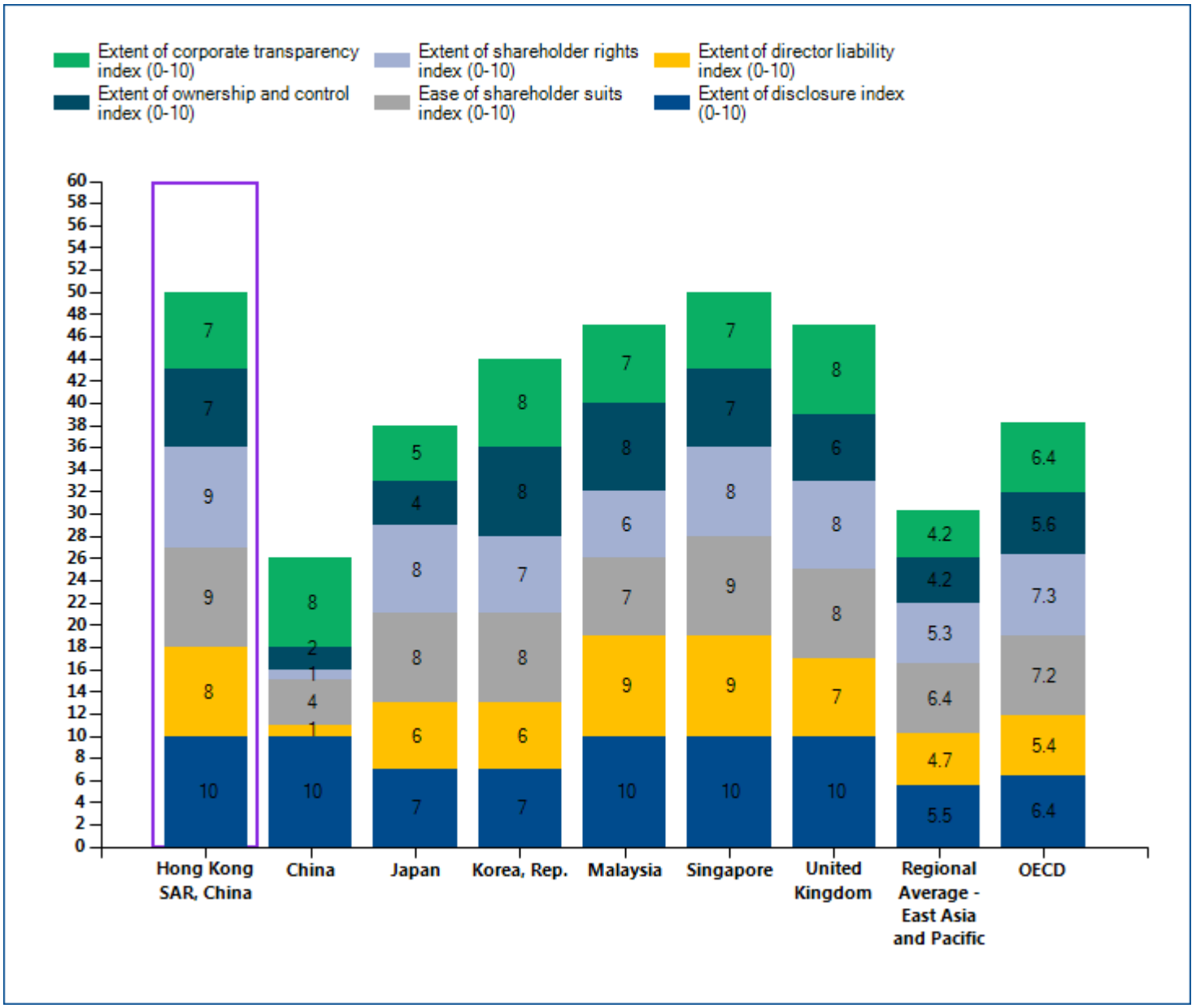

*Source: Doing Business* database.

## PROTECTING MINORITY INVESTORS

One way to put an economy's scores on the protecting minority investors indicators into context is to see where the economy stands in the distribution of scores across comparator economies. Figure 7.2 highlights the scores on the various minority investor protection indices for Hong Kong SAR, China.

A summary of scoring for the protecting minority investors indicators at the end of this chapter provides details on how the indices were calculated.

Figure 7.2 Summary of the various minority investor protection indices for Hong Kong SAR, China and comparator economies.




*Source: Doing Business* database.

## PROTECTING MINORITY INVESTORS

Economies with the strongest protections of minority investors from self-dealing require detailed disclosure and define clear duties for directors. They also have well-functioning courts and up-to-date procedural rules that give minority shareholders the means to prove their case and obtain a judgment within a reasonable time. As a result, reforms to strengthen minority investor protections may move ahead on different fronts—such as through new or amended company laws, securities regulations or civil procedure rules. What minority investor protection reforms has *Doing Business* recorded in Hong Kong SAR, China (table 7.1)?

Table 7.1 How has Hong Kong SAR, China strengthened minority investor protections—or not?
By *Doing Business* report year from DB2011 to DB2016

| DB year | Reform |
|---|---|
| **DB2015** | Hong Kong SAR, China, strengthened minority investor protections by introducing requirements for directors to provide more detailed disclosure of conflicts of interest to the other board members. |

*Source: Doing Business* database.
*Note:* For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.

## PROTECTING MINORITY INVESTORS

### What are the details?

The protecting minority investors indicators reported here for Hong Kong SAR, China are based on detailed information collected through a survey of corporate and securities lawyers about securities regulations, company laws and court rules of evidence and procedure. To construct the six indicators on minority investor protection, scores are assigned to each based on a range of conditions relating to disclosure, director liability, shareholder suits, shareholder rights, ownership and control and corporate transparency in a standard case study (for more details, see the Data Notes section of the *Doing Business 2016* report). The summary below shows the details underlying the scores for Hong Kong SAR, China.

Table 7.2 Summary of scoring for the protecting minority investors indicators in Hong Kong SAR, China

| | Answer | Score |
|---|---|---|
| Strength of minority investor protection index (0-10) | | 8.30 |
| Extent of conflict of interest regulation index (0-10) | | 9.00 |
| Extent of disclosure index (0-10) | | 10.00 |
| Which corporate body can provide legally sufficient approval for the Buyer-Seller transaction? (0-3) | Shareholders excluding interested parties | 3.0 |
| Is disclosure by the interested director to the board of directors required? (0-2) | Full disclosure of all material facts | 2.0 |
| Is disclosure of the transaction in published periodic filings (annual reports) required? (0-2) | Disclosure on the transaction and on the conflict of interest | 2.0 |
| Is immediate disclosure of the transaction to the public and/or shareholders required? (0-2) | Disclosure on the transaction and on the conflict of interest | 2.0 |
| Must an external body review the terms of the transaction before it takes place? (0-1) | Yes | 1.0 |
| Extent of director liability index (0-10) | | 8.00 |
| Can shareholders sue directly or derivatively for the damage caused by the Buyer-Seller transaction to the company? (0-1) | Yes | 1.0 |
| Can shareholders hold the interested director liable for the damage caused by the transaction to the company? (0-2) | Liable if unfair or prejudicial | 2.0 |
| Can shareholders hold members of the approving body liable for the damage cause by the transaction to the company? (0-2) | Liable if unfair or prejudicial | 2.0 |
| Must the interested director pay damages for the harm caused to the company upon a successful claim by a shareholder plaintiff? (0-1) | Yes | 1.0 |
| Must the interested director repay profits made from the transaction upon a successful claim by a shareholder plaintiff? (0-1) | Yes | 1.0 |
| Is the interested director fined and imprisoned or disqualified upon a successful claim by the shareholder plaintiff? (0-1) | No | 0.0 |
| Can a court void the transaction upon a successful claim by a shareholder plaintiff? (0-2) | Voidable if negligently concluded | 1.0 |
| Ease of shareholder suits index (0-10) | | 9.00 |
| Before filing suit, can shareholders owning 10% of the | Yes | 1.0 |

| | | |
|---|---|---|
| company's share capital inspect the transaction documents? (0-1) | | |
| Can the plaintiff obtain any documents from the defendant and witnesses during trial? (0-3) | No | 3.0 |
| Can the plaintiff request categories of documents from the defendant without identifying specific ones? (0-1) | Yes | 1.0 |
| Can the plaintiff directly question the defendant and witnesses during trial? (0-2) | Yes | 2.0 |
| Is the level of proof required for civil suits lower than that of criminal cases? (0-1) | Yes | 1.0 |
| Can shareholder plaintiffs recover their legal expenses from the company? (0-2) | Yes if successful | 1.0 |
| Extent of shareholder governance index (0-10) | | 7.70 |
| Extent of shareholder rights index (0-10) | | 9.00 |
| Does the sale of 51% of Buyer's assets require shareholder approval? | Yes | 1.0 |
| Can shareholders representing 10% of Buyer's share capital call for an extraordinary meeting of shareholders? | Yes | 1.0 |
| Must Buyer obtain its shareholders' approval every time it issues new shares? | Yes | 1.0 |
| Do shareholders automatically receive preemption rights every time Buyer issues new shares? | Yes | 1.0 |
| Must shareholders approve the election and dismissal of the external auditor? | Yes | 1.0 |
| Must changes to the voting rights of a class of shares be approved only by the holders of the affected shares? | Yes | 1.0 |
| Assuming that Buyer is a limited company, does the sale of 51% of Buyer's assets requires shareholder approval? | No | 0.0 |
| Assuming that Buyer is a limited company, can shareholders representing 10% of Buyer's share capital call for an extraordinary meeting of shareholders? | Yes | 1.0 |
| Assuming that Buyer is a limited company, must Buyer obtain its shareholders' approval every time it issues new shares? | Yes | 1.0 |
| Assuming that Buyer is a limited company, do shareholders automatically receive preemption rights every time Buyer issues new shares? | Yes | 1.0 |
| Extent of ownership and control index (0-10) | | 7.00 |
| Is the CEO prohibited from also being chair of the board of directors? | No | 0.0 |
| Must the board of directors include independent and nonexecutive board members? | Yes | 1.0 |
| Can shareholders remove members of Buyer's board of directors without cause before the end of their term? | Yes | 1.0 |
| Must Buyer's board of directors include a separate audit committee? | Yes | 1.0 |
| Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer? | Yes | 1.0 |
| Must Buyer pay dividends within a maximum period set by law after the declaration date? | No | 0.0 |
| Is a subsidiary prohibited from acquiring shares issued by its parent company? | Yes | 1.0 |

| | | |
|---|---|---|
| Assuming that Buyer is a limited company, can shareholders remove members of Buyer's board of directors without cause before the end of their term? | Yes | 1.0 |
| Assuming that Buyer is a limited company, must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer? | Yes | 1.0 |
| Assuming that Buyer is a limited company, must Buyer pay dividends within a maximum period set by law after the declaration date? | No | 0.0 |
| Extent of corporate transparency index (0-10) | | 7.00 |
| Must Buyer disclose direct and indirect beneficial ownership stakes representing 5%? | Yes | 1.0 |
| Must Buyer disclose information about board members' other directorships as well as basic information on their primary employment? | Yes | 1.0 |
| Must Buyer disclose the compensation of individual managers? | No | 0.0 |
| Must a detailed notice of general meeting be sent 30 days before the meeting? | No | 0.0 |
| Can shareholders representing 5% of Buyer's share capital put items on the agenda for the general meeting? | Yes | 1.0 |
| Must Buyer's annual financial statements be audited by an external auditor? | Yes | 1.0 |
| Must Buyer disclose its audit reports to the public. | Yes | 1.0 |
| Assuming that Buyer is a limited company, must a detailed notice of general meeting be sent 30 days before the meeting? | No | 0.0 |
| Assuming that Buyer is a limited company, can shareholders representing 5% of Buyer's share capital put items on the agenda for the general meeting? | Yes | 1.0 |
| Assuming that Buyer is a limited company, must Buyer's annual financial statements be audited by an external auditor? | Yes | 1.0 |

*Source: Doing Business* database.

# PAYING TAXES

Taxes are essential. The level of tax rates needs to be carefully chosen—and needless complexity in tax rules avoided. Firms in economies that rank better on the ease of paying taxes in the *Doing Business* study tend to perceive both tax rates and tax administration as less of an obstacle to business according to the World Bank Enterprise Survey research.

## What do the indicators cover?

Using a case scenario, *Doing Business* records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measures of the administrative burden of paying taxes and contributions. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws. The ranking of economies on the ease of paying taxes is determined by sorting their distance to frontier scores on the ease of paying taxes. These scores are the simple average of the distance to frontier scores for each of the component indicators, with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax rate[3]. All financial statement variables are proportional to 2012 income per capita. To make the data comparable across economies, several assumptions are used.

- TaxpayerCo is a medium-size business that started operations on January 1, 2013.
- The business starts from the same financial position in each economy. All the taxes and mandatory contributions paid during the second year of operation are recorded.
- Taxes and mandatory contributions are measured at all levels of government.
- Taxes and mandatory contributions include corporate income tax, turnover tax and all labor taxes and contributions paid by the company.
- A range of standard deductions and exemptions are also recorded.

**WHAT THE PAYING TAXES INDICATORS MEASURE**

**Tax payments for a manufacturing company in 2014 (number per year adjusted for electronic and joint filing and payment)**

Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)

Method and frequency of filing and payment

**Time required to comply with 3 major taxes (hours per year)**

Collecting information and computing the tax payable

Completing tax return forms, filing with proper agencies

Arranging payment or withholding

Preparing separate tax accounting books, if required

**Total tax rate (% of profit before all taxes)**

Profit or corporate income tax

Social contributions and labor taxes paid by the employer

Property and property transfer taxes

Dividend, capital gains and financial transactions taxes

Waste collection, vehicle, road and other taxes

[3] The nonlinear distance to frontier for the total tax rate is equal to the distance to frontier for the total tax rate to the power of 0.8. The threshold is defined as the total tax rate at the 15th percentile of the overall distribution for all years included in the analysis up to and including *Doing Business 2015*, which is 26.1%. All economies with a total tax rate below this threshold receive the same score as the economy at the threshold.

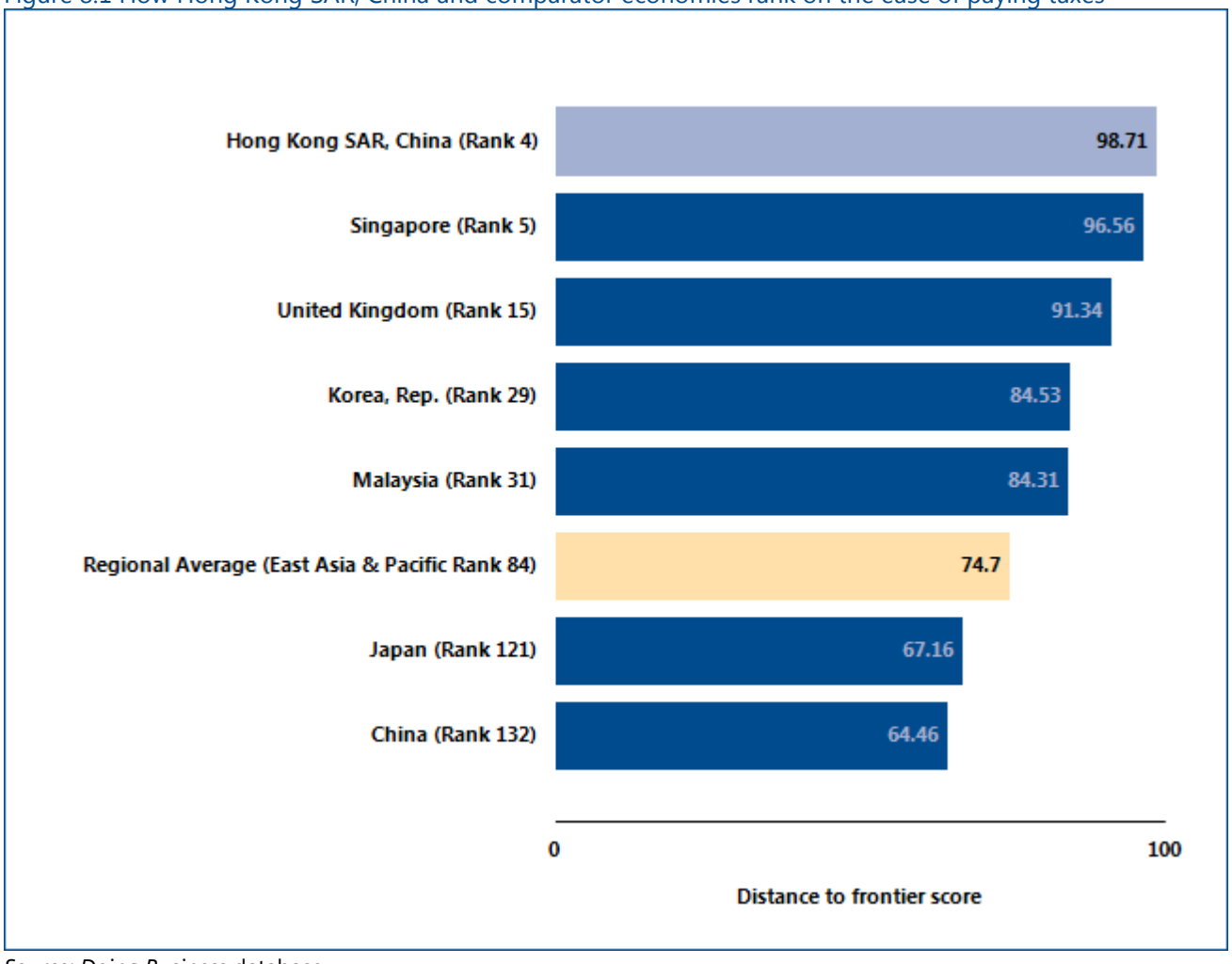
## PAYING TAXES

### Where does the economy stand today?

What is the administrative burden of complying with taxes in Hong Kong SAR, China—and how much do firms pay in taxes? On average, firms make 3.00 tax payments a year, spend 74.00 hours a year filing, preparing and paying taxes and pay total taxes amounting to 22.80% of profit (see the summary at the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Hong Kong SAR, China stands at 4 in the ranking of 189 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing the tax compliance burden for businesses in Hong Kong SAR, China.

Figure 8.1 How Hong Kong SAR, China and comparator economies rank on the ease of paying taxes




*Source: Doing Business* database.

## PAYING TAXES

Economies around the world have made paying taxes faster, easier and less costly for businesses—such as by consolidating payments and filings of taxes, offering electronic systems for filing and payment, establishing taxpayer service centers or allowing for more deductions and exemptions. Many have lowered tax rates. Changes have brought concrete results. Some economies simplifying tax payment and reducing rates have seen tax revenue rise. What tax reforms has *Doing Business* recorded in Hong Kong SAR, China (table 8.1)?

Table 8.1 How has Hong Kong SAR, China made paying taxes easier—or not?
By *Doing Business* report year from DB2011 to DB2016

| DB year | Reform |
|---|---|
| **DB2011** | Hong Kong SAR (China) abolished the fuel tax on diesel. |
| **DB2016** | Hong Kong SAR, China, made paying taxes easier and less costly for companies by simplifying compliance with the mandatory provident fund obligations and increasing the allowance for profit tax. At the same time, it increased the maximum contribution to the mandatory provident fund and reduced the property tax waiver. |

*Source: Doing Business* database.
*Note:* For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.

## PAYING TAXES

### What are the details?

The indicators reported here for Hong Kong SAR, China are based on the taxes and contributions that would be paid by a standardized case study company used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). Tax practitioners are asked to review a set of financial statements as well as a standardized list of assumptions and transactions that the company completed during its 2nd year of operation. Respondents are asked how much taxes and mandatory contributions the business must pay and how these taxes are filed and paid.

**LOCATION OF STANDARDIZED COMPANY**

**City: Hong Kong**

The taxes and contributions paid are listed in the summary below, along with the associated number of payments, time and tax rate.

Table 8.2 Summary of tax rates and administration

| Tax or mandatory contribution | Payments (number) | Notes on payments | Time (hours) | Statutory tax rate | Tax base | Total tax rate (% of profit) | Notes on total tax rate |
|---|---|---|---|---|---|---|---|
| Corporate income tax | 1 | | 50 | 0.165 | taxable profits | 17.5 | |
| Employer paid - Mandatory provident fund (MPF) contributions | 1 | online | 24 | 0.05 | gross salaries | 5.2 | |
| Property tax | 1 | | | 0.05 | annual rental value | 0.14 | |
| Employee paid - Mandatory provident fund (MPF) contributions | 0 | jointly | | 0.05 | gross salaries | 0 | withheld |
| Totals | 3.00 | | 74.00 | | | 22.80 | |

*Source: Doing Business* database.

# TRADING ACROSS BORDERS

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential.

## What do the indicators cover?

*Doing Business* records the time and cost associated with the logistical process of exporting and importing goods. Under the new methodology introduced this year, *Doing Business* measures the time and cost (excluding tariffs) associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods. The ranking of economies on the ease of trading across borders is determined by sorting their distance to frontier scores for trading across borders. These scores are the simple average of the distance to frontier scores for the time and cost for documentary compliance and border compliance to export and import.

To make the data comparable across economies, a few assumptions are made about the traded goods and the transactions:

**Time**

- Time is measured in hours, and 1 day is 24 hours (for example, 22 days are recorded as 22 × 24 = 528 hours). If customs clearance takes 7.5 hours, the data are recorded as is. Alternatively, suppose that documents are submitted to a customs agency at 8:00 a.m., are processed overnight and can be picked up at 8:00 a.m. the next day. In this case the time for customs clearance would be recorded as 24 hours because the actual procedure took 24 hours.

**WHAT THE TRADING ACROSS BORDERS INDICATORS MEASURE FOR IMPORT & EXPORT**

**Documentary compliance – cost (US$) & time (hours)**

Obtain, prepare and submit documents:

-During transport, clearance, inspections and port or border handling in origin economy

-Required by origin, transit and destination economies

Covers all documents by law and in practice

**Border compliance – cost (US$) & time (hours)**

Customs clearance and inspections

Inspections by other agencies

Port or border handling

Obtaining, preparing and submitting documents during clearance, inspections and port or border handling

**Domestic transport***

Loading and unloading of shipment

Transport between warehouse and terminal/port

Transport between terminal/port and border

Obtaining, preparing and submitting documents during domestic transport

Traffic delays and road police checks while shipment is en route

* Although *Doing Business* collects and publishes data on the time and cost for domestic transport, it does not use these data in calculating the distance to frontier score for trading across borders or the ranking on the ease of trading across borders.

**Cost**

- Insurance cost and informal payments for which no receipt is issued are excluded from the costs recorded. Costs are reported in U.S. dollars. Contributors are asked to convert local currency into U.S. dollars based on the exchange rate prevailing on the day they answer the questionnaire.

**Assumptions of the case study**

- For each of the 189 economies covered by *Doing Business*, it is assumed that a shipment travels from a warehouse in the largest business city of the exporting economy to a warehouse in the largest business city of the importing economy. For 11 economies the data are also collected, under the same case study assumptions, for the second largest business city.
- The import and export case studies assume different traded products. It is assumed that each economy imports a standardized shipment of 15 metric tons of containerized auto parts (HS 8708) from its natural import partner—the economy from which it imports the largest value (price times quantity) of auto parts. It is assumed that each economy exports the product of its comparative advantage (defined by the largest export value) to its natural export partner—the economy that is the largest purchaser of this product. Precious metal and gems, live animals and pharmaceuticals are excluded from the list of possible export products, however, and the second largest product category is considered as needed.
- To identify the trading partners and export product for each economy, *Doing Business* collected data on trade flows for the most recent four-year period from international databases such as the United Nations Commodity Trade Statistics Database (UN Comtrade). For economies for which trade flow data were not available, data from ancillary government sources (various ministries and departments) and World Bank Group country offices were used to identify the export product and natural trading partners.
- A shipment is a unit of trade. Export shipments do not necessarily need to be containerized, while import shipments of auto parts are assumed to be containerized.
- Shipping cost based on weight is assumed to be greater than shipping cost based on volume.
- If government fees are determined by the value of the shipment, the value is assumed to be $50,000.
- The product is new, not secondhand or used merchandise.
- The exporting firm is responsible for hiring and paying for a freight forwarder or customs broker (or both) and pays for all costs related to international shipping, domestic transport, clearance and mandatory inspections by customs and other government agencies, port or border handling, documentary compliance fees and the like for exports. The importing firm is responsible for the above costs for imports.
- The mode of transport is the one most widely used for the chosen export or import product and the trading partner, as is the seaport, airport or land border crossing.
- All electronic submissions of information requested by any government agency in connection with the shipment are considered to be documents obtained, prepared and submitted during the export or import process.
- A port or border is defined as a place (seaport, airport or land border crossing) where merchandise can enter or leave an economy.
- Government agencies considered relevant are agencies such as customs, port authorities, road police, border guards, standardization agencies, ministries or departments of agriculture or industry, national security agencies and any other government authorities.

## TRADING ACROSS BORDERS

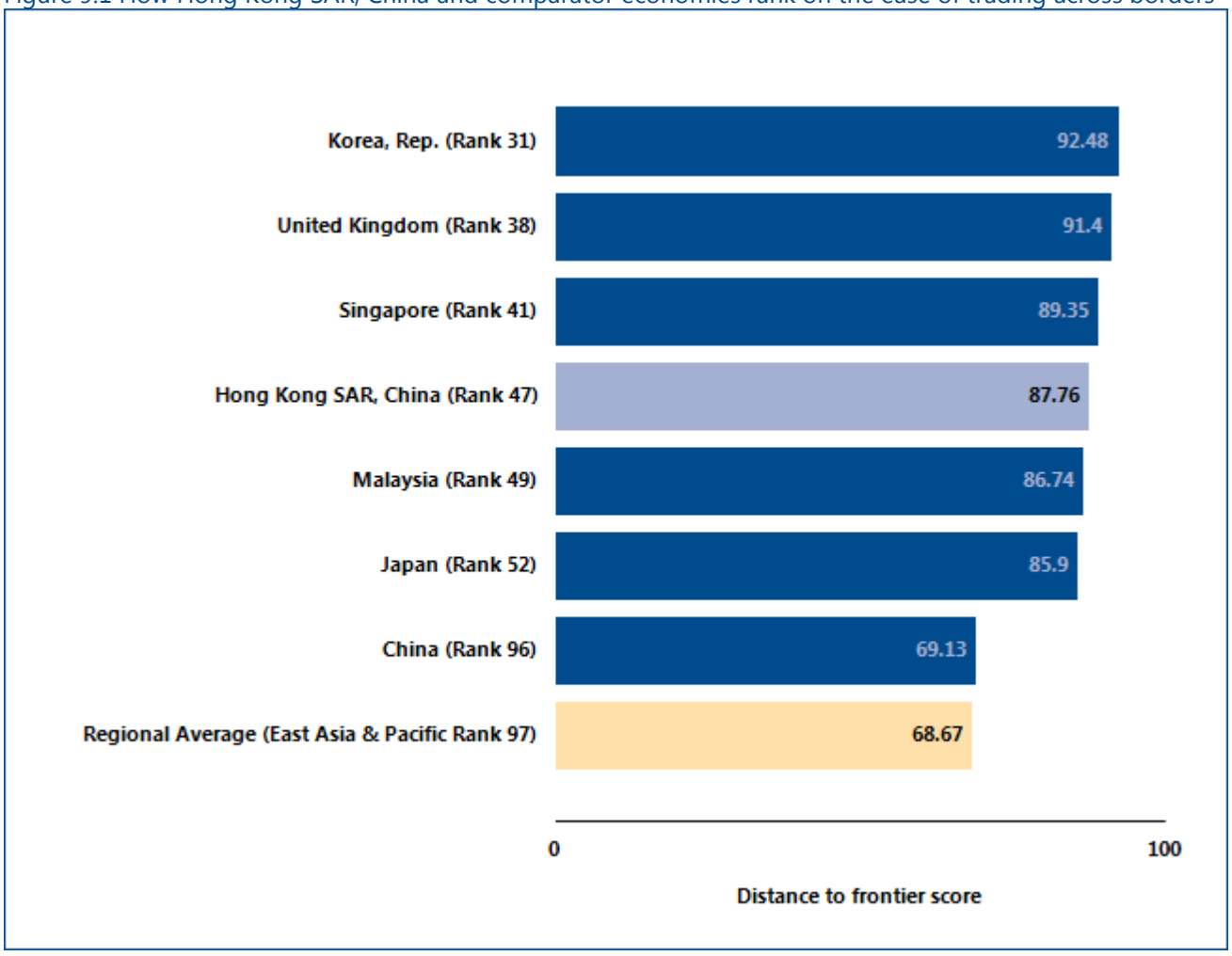
### Where does the economy stand today?

The Trading across Border indicator refers to a case study scenario of a warehouse in the largest business city of an economy (except for 11 economies for which the data are a population-weighted average of the 2 largest business cities) trading with the main import and export partner through the economy's main border crossing.

Globally, Hong Kong SAR, China stands at 47 in the ranking of 189 economies on the ease of trading across borders (figure 9.1).

While not included in the distance to frontier or ease of doing business ranking, data on domestic transportation is also recorded for all economies and provided in Table 9.3.

Figure 9.1 How Hong Kong SAR, China and comparator economies rank on the ease of trading across borders




*Source: Doing Business* database.

# TRADING ACROSS BORDERS

## What are the details?

The indicators reported here for Hong Kong SAR, China are based on a set of specific predefined procedures for trading a shipment of goods by the most widely used mode of transport (whether sea, land, air or some combination of these). The information on the time and cost to complete export and import is collected from local freight forwarders, customs brokers and traders.

**LOCATION OF STANDARDIZED COMPANY**

**City: Hong Kong**

The details on the predefined set of procedures, and the associated time and cost, for exporting and importing a shipment of goods are listed in the summary bellow, along with the required documents.

Table 9.2 Summary of export and import time and cost for trading across borders in Hong Kong SAR, China

| | Hong Kong SAR, China | East Asia & Pacific |
|---|---|---|
| Time to export: Border compliance (hours) | 19 | 51 |
| Cost to export: Border compliance (USD) | 282 | 396 |
| Time to export: Documentary compliance (hours) | 1 | 75 |
| Cost to export: Documentary compliance (USD) | 52 | 167 |
| Time to import: Border compliance (hours) | 19 | 59 |
| Cost to import: Border compliance (USD) | 266 | 421 |
| Time to import: Documentary compliance (hours) | 1 | 70 |
| Cost to import: Documentary compliance (USD) | 130 | 148 |

*Source: Doing Business* database.

Table 9.3 Summary of trading details, transport time and documents for trading across borders in Hong Kong SAR, China

| | Export | Import |
|---|---|---|
| Product | HS 85 : Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles | HS 8708: Parts and accessories of motor vehicles |
| Trade partner | China | Japan |
| Border | Hong Kong port | Hong Kong port |
| Distance (km) | 11 | 11 |
| Domestic transport time (hours) | 2 | 2 |

| | Export | Import |
|---|---|---|
| Domestic transport cost (USD) | 223 | 223 |
| Domestic transport speed (km/hour) | 6.4 | 5.0 |
| Domestic transport cost per distance (USD/km) | 20.2 | 20.2 |

*Source: Doing Business* database.

*Note:* Although *Doing Business* collects and publishes data on the time and cost for domestic transport, it does not use these data in calculating the distance to frontier score for trading across borders or the ranking on the ease of trading across borders.

| Documents to export |
|---|
| Bill of lading |
| Commercial invoice |
| Customs Export Declaration |

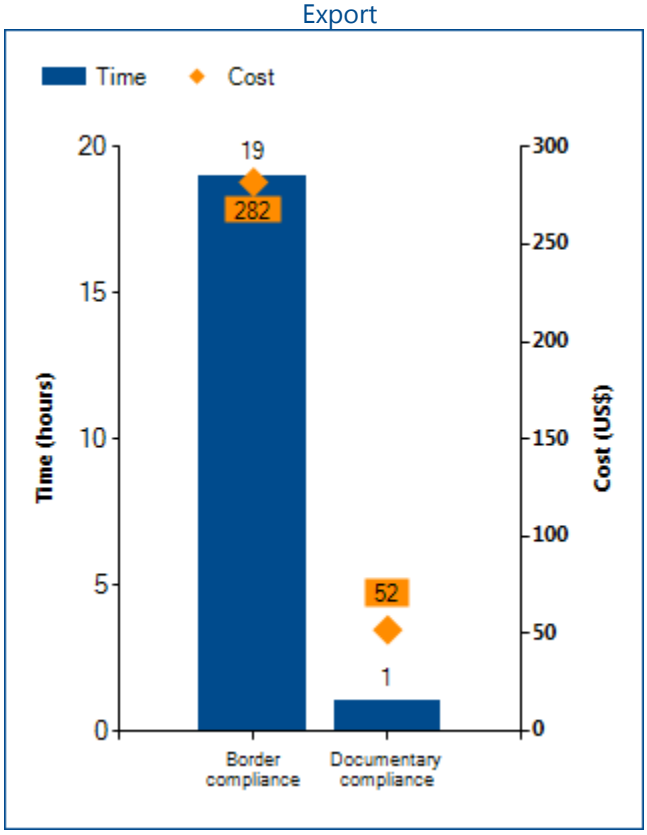
| Documents to import |
|---|
| Bill of lading |
| Commercial invoice |
| Customs Import Declaration |

*Source: Doing Business* database.

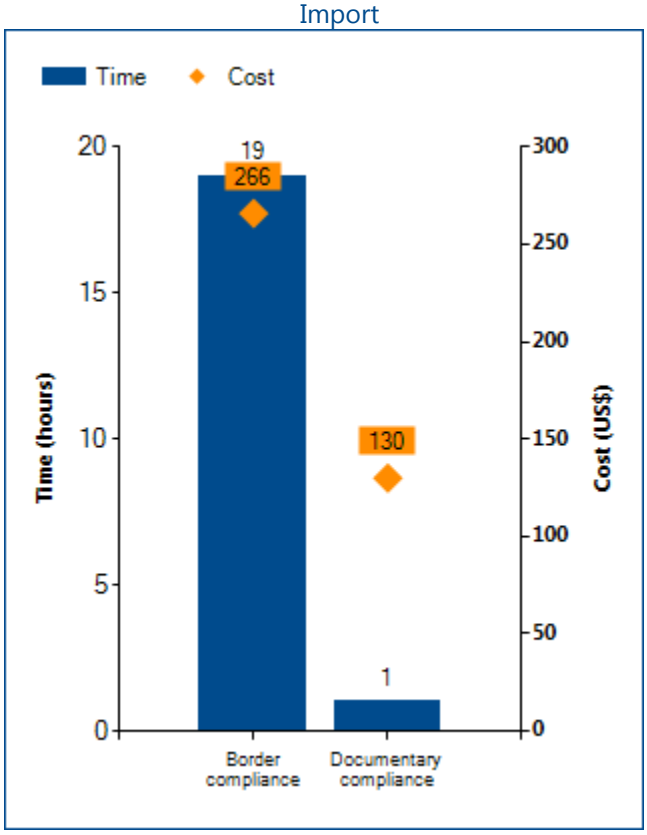
*Note: Doing Business* continues to collect data on the number of documents needed to trade internationally. Unlike in previous years, however, these data are excluded from the calculation of the distance to frontier score and ranking. The time and cost for documentary compliance serve as better measures of the overall cost and complexity of compliance with documentary requirements than does the number of documents required.

Figure 9.2 Summary of Hong Kong SAR, China on the ease of trading across borders

Export




Import




*Source: Doing Business* database.

# ENFORCING CONTRACTS

Effective commercial dispute resolution has many benefits. Courts are essential for entrepreneurs because they interpret the rules of the market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. Speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of a long court dispute.

## What do the indicators cover?

*Doing Business* measures the time and cost for resolving a standardized commercial dispute through a local first-instance court. In addition, this year it introduces a new measure, the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. This new index replaces the indicator on procedures, which was eliminated this year. The ranking of economies on the ease of enforcing contracts is determined by sorting their distance to frontier scores. These scores are the simple average of the distance to frontier scores for each of the component indicators.

The dispute in the case study involves the breach of a sales contract between 2 domestic businesses. The case study assumes that the court hears an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. To make the data comparable across economies, *Doing Business* uses several assumptions about the case:

- The dispute concerns a lawful transaction between two businesses (Seller and Buyer), both located in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- The buyer orders custom-made goods, then fails to pay.
- The value of the dispute is 200% of the income per capita or the equivalent in local currency of USD 5,000, whichever is greater.
- The seller sues the buyer before the court with jurisdiction over commercial cases worth 200% of income per capita or $5,000.
- The seller requests a pretrial attachment to secure the claim.
- The dispute on the quality of the goods requires an expert opinion.
- The judge decides in favor of the seller; there is no appeal.
- The seller enforces the judgment through a public sale of the buyer's movable assets.

**WHAT THE ENFORCING CONTRACTS INDICATORS MEASURE**

**Time required to enforce a contract through the courts (calendar days)**

- Time to file and serve the case
- Time for trial and to obtain the judgment
- Time to enforce the judgment

**Cost required to enforce a contract through the courts (% of claim)**

- Attorney fees
- Court fees
- Enforcement fees

**Quality of judicial processes index (0-18)**

- Court structure and proceedings (0-5)
- Case management (0-6)
- Court automation (0-4)
- Alternative dispute resolution (0-3)

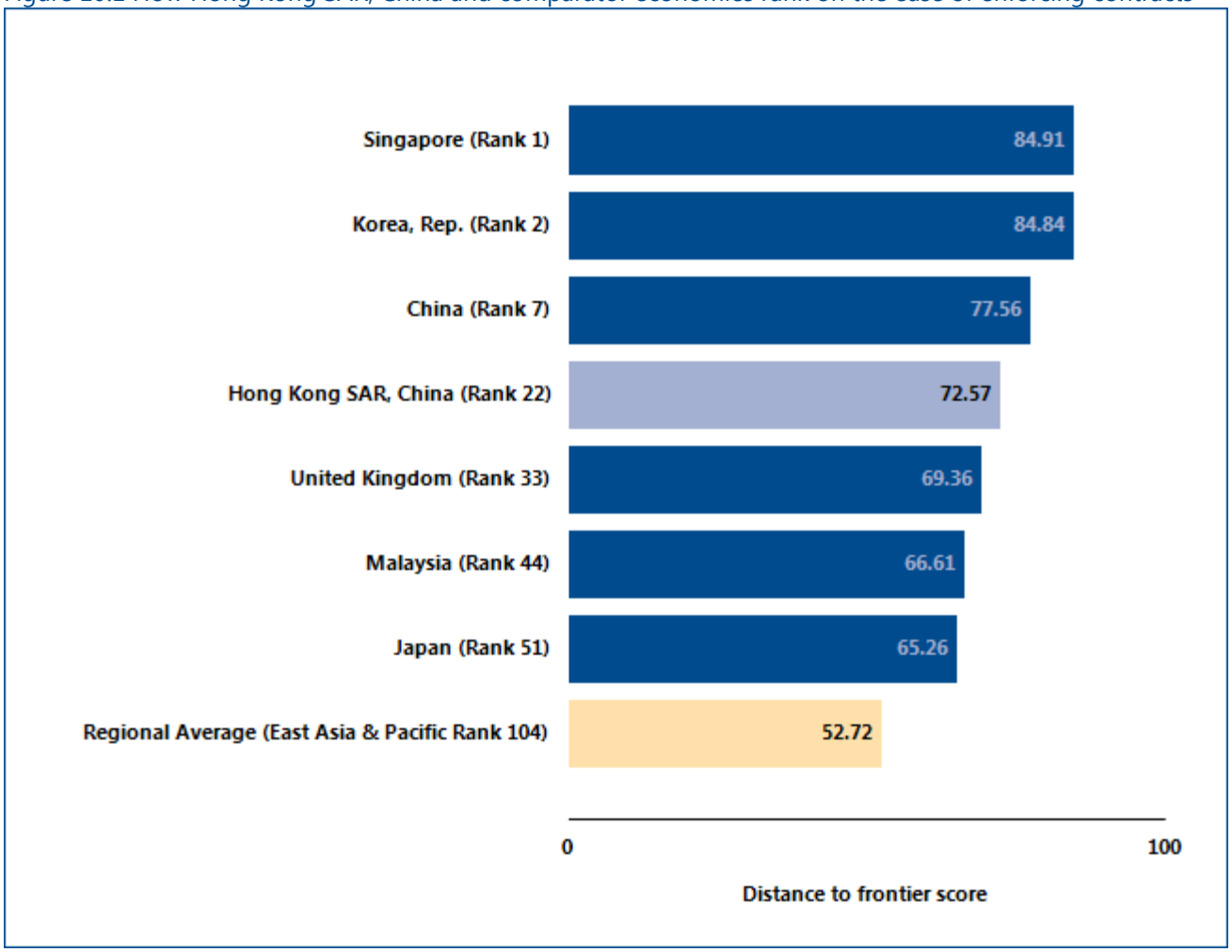
## ENFORCING CONTRACTS

### Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Hong Kong SAR, China? According to data collected by *Doing Business*, contract enforcement takes 360.00 days and costs 21.20% of the value of the claim. Most indicator sets refer to the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Hong Kong SAR, China stands at 22 in the ranking of 189 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Hong Kong SAR, China.

Figure 10.1 How Hong Kong SAR, China and comparator economies rank on the ease of enforcing contracts




*Source: Doing Business* database.

## ENFORCING CONTRACTS

Economies in all regions have improved contract enforcement in recent years. A judiciary can be improved in different ways. Higher-income economies tend to look for ways to enhance efficiency by introducing new technology. Lower-income economies often work on reducing backlogs by introducing periodic reviews to clear inactive cases from the docket and by making procedures faster. What reforms making it easier (or more difficult) to enforce contracts has *Doing Business* recorded in Hong Kong SAR, China (table 10.1)?

Table 10.1 How has Hong Kong SAR, China made enforcing contracts easier—or not?
By *Doing Business* report year from DB2011 to DB2016

| DB year | Reform |
|---|---|
| **DB2011** | Reforms implemented in the civil justice system of Hong Kong SAR (China) will help increase the efficiency and cost-effectiveness of commercial dispute resolution. |

*Source: Doing Business* database.
*Note:* For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.

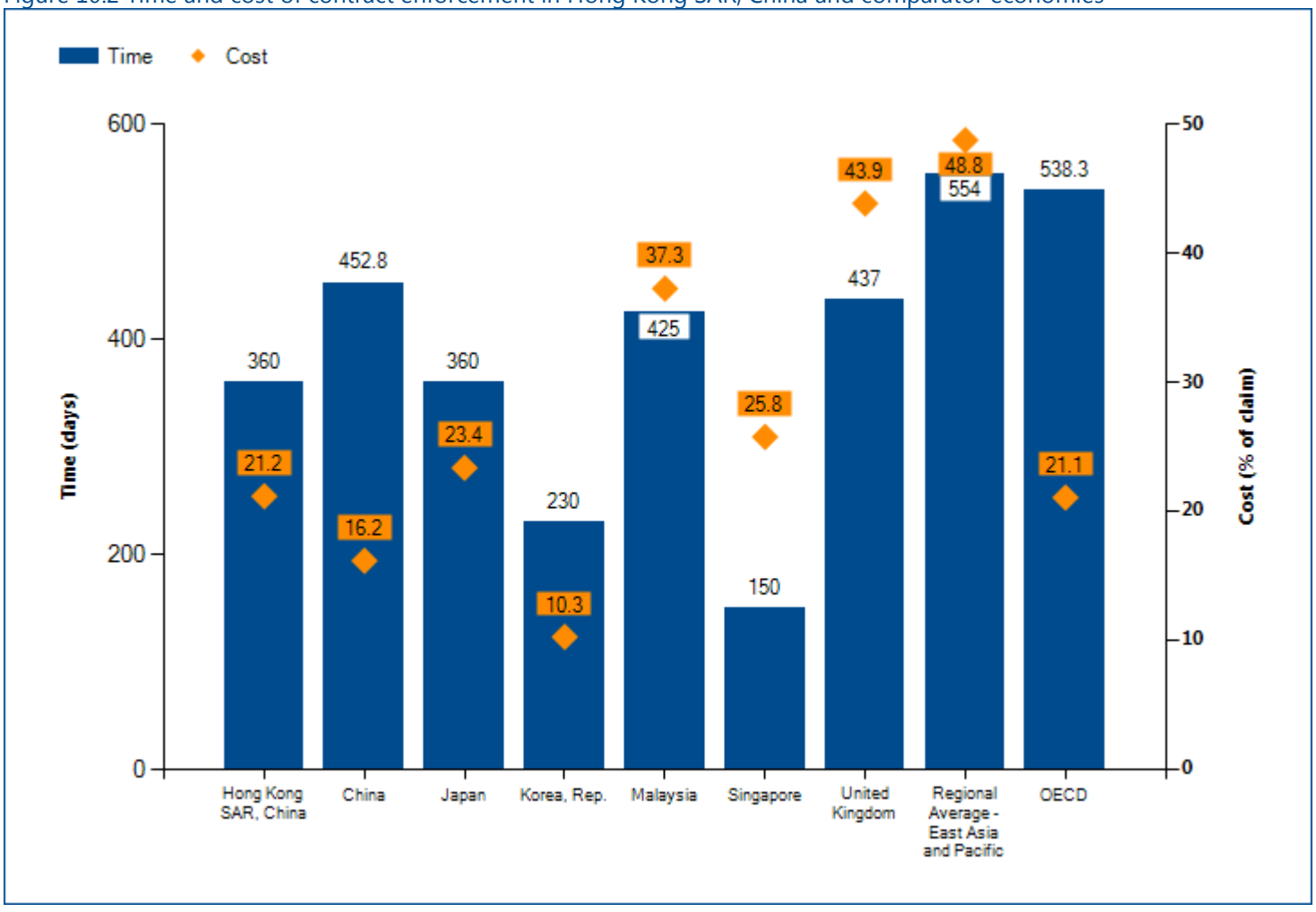
## ENFORCING CONTRACTS

### What are the details?

The data on time and cost reported here for Hong Kong SAR, China are built by following the step-by-step evolution of a commercial sale dispute within the court, under the assumptions about the case described above (figure 10.2). The time and cost of resolving the standardized dispute are identified through study of the codes of civil procedure and other court regulations, as well as through questionnaires completed by local litigation lawyers (and, in a quarter of the economies covered by *Doing Business*, by judges as well).

| ECONOMY DETAILS | |
|---|---|
| **Court name:** | **Hong Kong District Court** |
| **City:** | **Hong Kong** |

Figure 10.2 Time and cost of contract enforcement in Hong Kong SAR, China and comparator economies




*Source: Doing Business* database.

Table 10.2 Details on time and cost for enforcing contracts in Hong Kong SAR, China

| Indicator | Hong Kong SAR, China | East Asia & Pacific average |
|---|---|---|
| **Time (days)** | 360 | 554 |
| Filing and service | 5 | |
| Trial and judgment | 310 | |
| Enforcement of judgment | 45 | |
| **Cost (% of claim)** | 21.2 | 48.8 |
| Attorney fees (% of claim) | 19.5 | |
| Court fees (% of claim) | 0.7 | |
| Enforcement fees (% of claim) | 1.0 | |

*Source: Doing Business* database.

## ENFORCING CONTRACTS

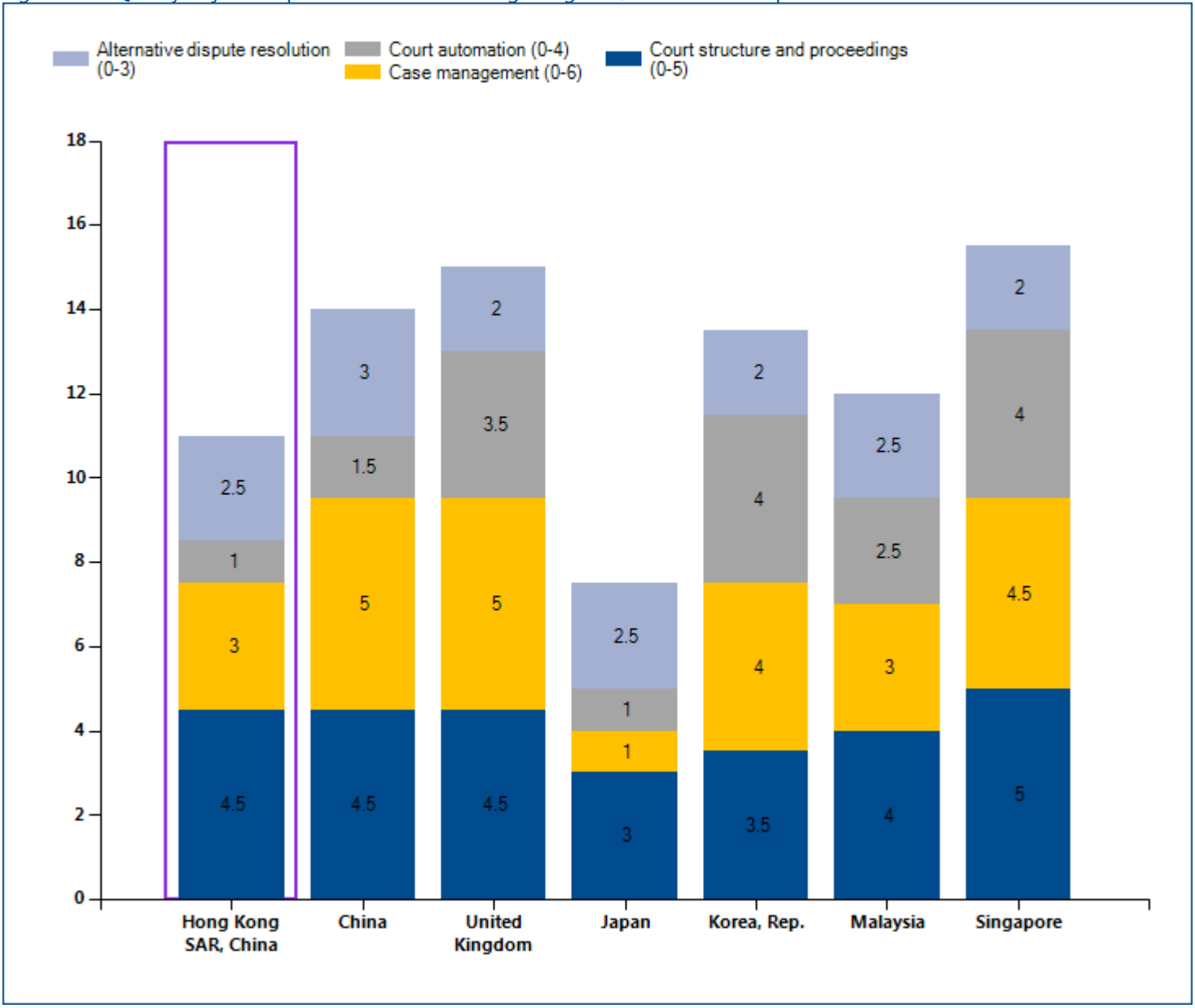
### Quality of judicial processes index

The quality of judicial processes index measures whether each economy has adopted a series of good practices in its court system in four areas: court structure and proceedings, case management, court automation and alternative dispute resolution. The score on the quality of judicial processes index is the sum of the scores on these 4 sub-components. The index ranges from 0 to 18, with higher values indicating more efficient judicial processes.

The scores reported here show which of these good practices are available in Hong Kong SAR, China.

This methodology was initially developed by Djankov and others (2003) and is adopted here with several changes. The quality of judicial processes index was introduced in *Doing Business 2016*. The good practices tested in this index were developed on the basis of internationally recognized good practices promoting judicial efficiency.

Figure 10.3 Quality of judicial processes index in Hong Kong SAR, China and comparator economies




*Source: Doing Business* database.

Table 10.3 Details of the quality of judicial processes index in Hong Kong SAR, China

| | Answer | Score |
|---|---|---|
| Quality of judicial processes index (0-18) | | 11.00 |
| Court structure and proceedings (0-5) | | 4.5 |
| 1. Is there a court or division of a court dedicated solely to hearing commercial cases? | Yes | 1.5 |
| 2. Small claims court | | 1.5 |
| 2.a. Is there a small claims court or a fast-track procedure for small claims? | Yes | |
| 2.b. If yes, is self-representation allowed? | Yes | |
| 3. Is pretrial attachment available? | Yes | 1.0 |
| 4. Are new cases assigned randomly to judges? | Yes | 0.5 |
| Case management (0-6) | | 3.0 |
| 1. Time standards | | 1.0 |
| 1.a. Are there laws setting overall time standards for key court events in a civil case? | Yes | |
| 1.b. If yes, are the time standards set for at least three court events? | Yes | |
| 1.c. Are these time standards respected in more than 50% of cases? | Yes | |
| 2. Adjournments | | 0.0 |
| 2.a. Does the law regulate the maximum number of adjournments that can be granted? | No | |
| 2.b. Are adjournments limited to unforeseen and exceptional circumstances? | No | |
| 2.c. If rules on adjournments exist, are they respected in more than 50% of cases? | n.a. | |
| 3. Can two of the following four reports be generated about the competent court: (i) time to disposition report; (ii) clearance rate report; (iii) age of pending cases report; and (iv) single case progress report? | Yes | 1.0 |
| 4. Is a pretrial conference among the case management techniques used before the competent court? | Yes | 1.0 |
| 5. Are there any electronic case management tools in place within the competent court for use by judges? | No | 0.0 |
| 6. Are there any electronic case management tools in place within the competent court for use by lawyers? | No | 0.0 |
| Court automation (0-4) | | 1.0 |

| | Answer | Score |
|---|---|---|
| 1. Can the initial complaint be filed electronically through a dedicated platform within the competent court? | No | 0.0 |
| 2. Is it possible to carry out service of process electronically for claims filed before the competent court? | No | 0.0 |
| 3. Can court fees be paid electronically within the competent court? | No | 0.0 |
| 4. Publication of judgments | | 1.0 |
| 4.a Are judgments rendered in commercial cases at all levels made available to the general public through publication in official gazettes, in newspapers or on the internet or court website? | Yes | |
| 4.b. Are judgments rendered in commercial cases at the appellate and supreme court level made available to the general public through publication in official gazettes, in newspapers or on the internet or court website? | Yes | |
| Alternative dispute resolution (0-3) | | 2.5 |
| 1. Arbitration | | 1.5 |
| 1.a. Is domestic commercial arbitration governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all its aspects? | Yes | |
| 1.b. Are there any commercial disputes—aside from those that deal with public order or public policy—that cannot be submitted to arbitration? | No | |
| 1.c. Are valid arbitration clauses or agreements usually enforced by the courts? | Yes | |
| 2. Mediation/Conciliation | | 1.0 |
| 2.a. Is voluntary mediation or conciliation available? | Yes | |
| 2.b. Are mediation, conciliation or both governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all their aspects? | Yes | |
| 2.c. Are there financial incentives for parties to attempt mediation or conciliation (i.e., if mediation or conciliation is successful, a refund of court filing fees, income tax credits or the like)? | No | |

*Source: Doing Business* database.

# RESOLVING INSOLVENCY

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Fast and cheap insolvency proceedings result in the speedy return of businesses to normal operation and increase returns to creditors. By clarifying the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and sustainably grow the economy.

## What do the indicators cover?

*Doing Business* studies the time, cost and outcome of insolvency proceedings involving domestic legal entities. These variables are used to calculate the recovery rate, which is recorded as cents on the dollar recovered by secured creditors through reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings. To determine the present value of the amount recovered by creditors, *Doing Business* uses the lending rates from the International Monetary Fund, supplemented with data from central banks and the Economist Intelligence Unit.

In addition, *Doing Business* evaluates the adequacy and integrity of the existing legal framework applicable to liquidation and reorganization proceedings through the strength of insolvency framework index. The index tests whether economies adopted internationally accepted good practices in four areas: commencement of proceedings, management of debtor's assets, reorganization proceedings and creditor participation.

The ranking of economies on the ease of resolving insolvency is determined by sorting their distance to frontier scores for resolving insolvency. These scores are the simple average of the distance to frontier scores for the recovery rate and the strength of insolvency framework index. The Resolving Insolvency indicators do not measure insolvency proceedings of individuals and financial institutions. The data are derived from questionnaire responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems.

## WHAT THE RESOLVING INSOLVENCY INDICATORS MEASURE

**Time required to recover debt (years)**

- Measured in calendar years
- Appeals and requests for extension are included

**Cost required to recover debt (% of debtor's estate)**

- Measured as percentage of estate value
- Court fees
- Fees of insolvency administrators
- Lawyers' fees
- Assessors' and auctioneers' fees
- Other related fees

**Outcome**

- Whether business continues operating as a going concern or business assets are sold piecemeal

**Recovery rate for creditors**

- Measures the cents on the dollar recovered by secured creditors
- Outcome for the business (survival or not) determines the maximum value that can be recovered
- Official costs of the insolvency proceedings are deducted
- Depreciation of furniture is taken into account
- Present value of debt recovered

**Strength of insolvency framework index (0-16)**

- Sum of the scores of four component indices:
- Commencement of proceedings index (0-3)
- Management of debtor's assets index (0-6)
- Reorganization proceedings index (0-3)
- Creditor participation index (0-4)

## RESOLVING INSOLVENCY

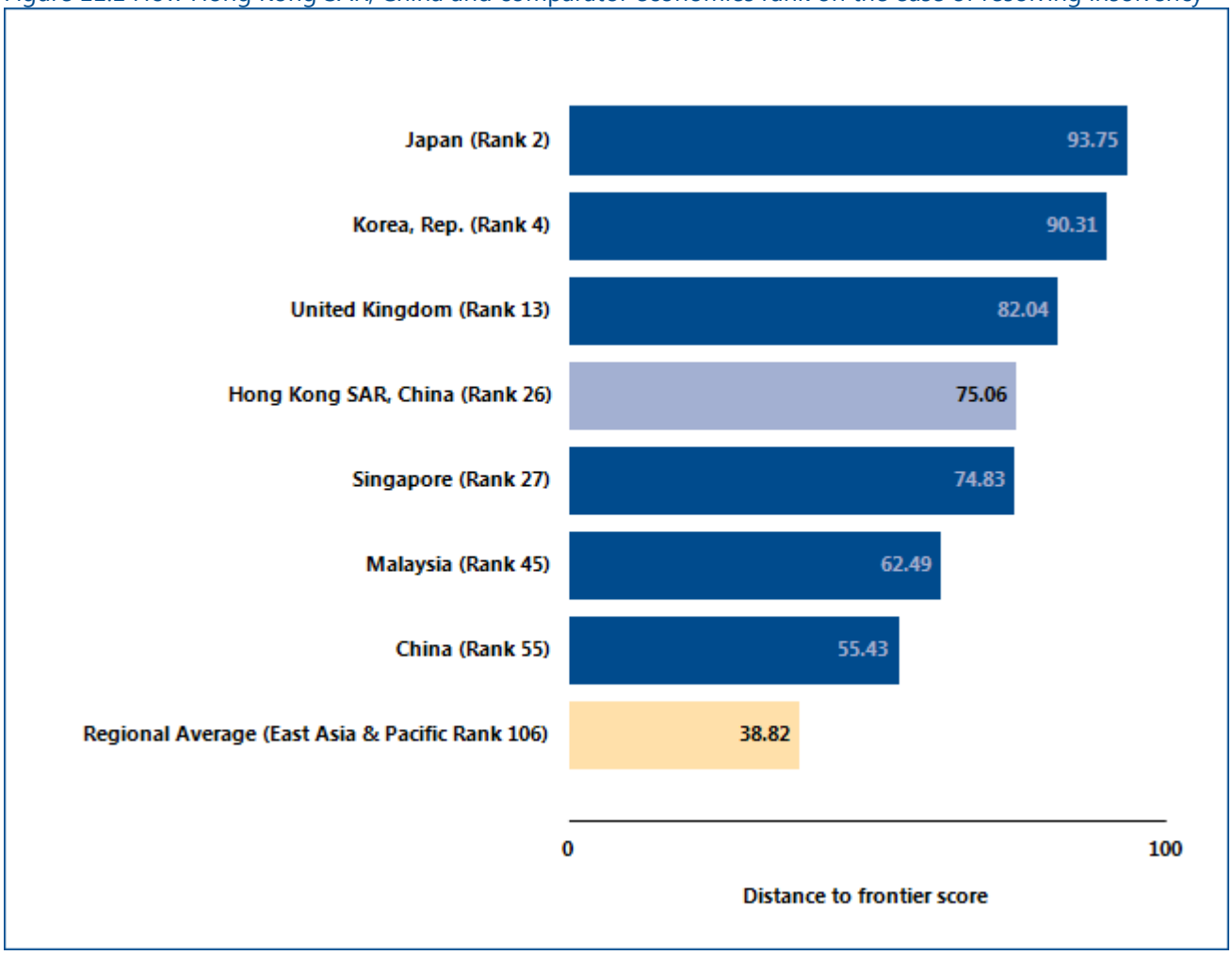
### Where does the economy stand today?

According to data collected by *Doing Business*, resolving insolvency takes 0.80 years on average and costs 5.00% of the debtor's estate, with the most likely outcome being that the company will be sold as going concern. The average recovery rate is 87.20 cents on the dollar. Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities.

Globally, Hong Kong SAR, China stands at 26 in the ranking of 189 economies on the ease of resolving insolvency (figure 11.1).

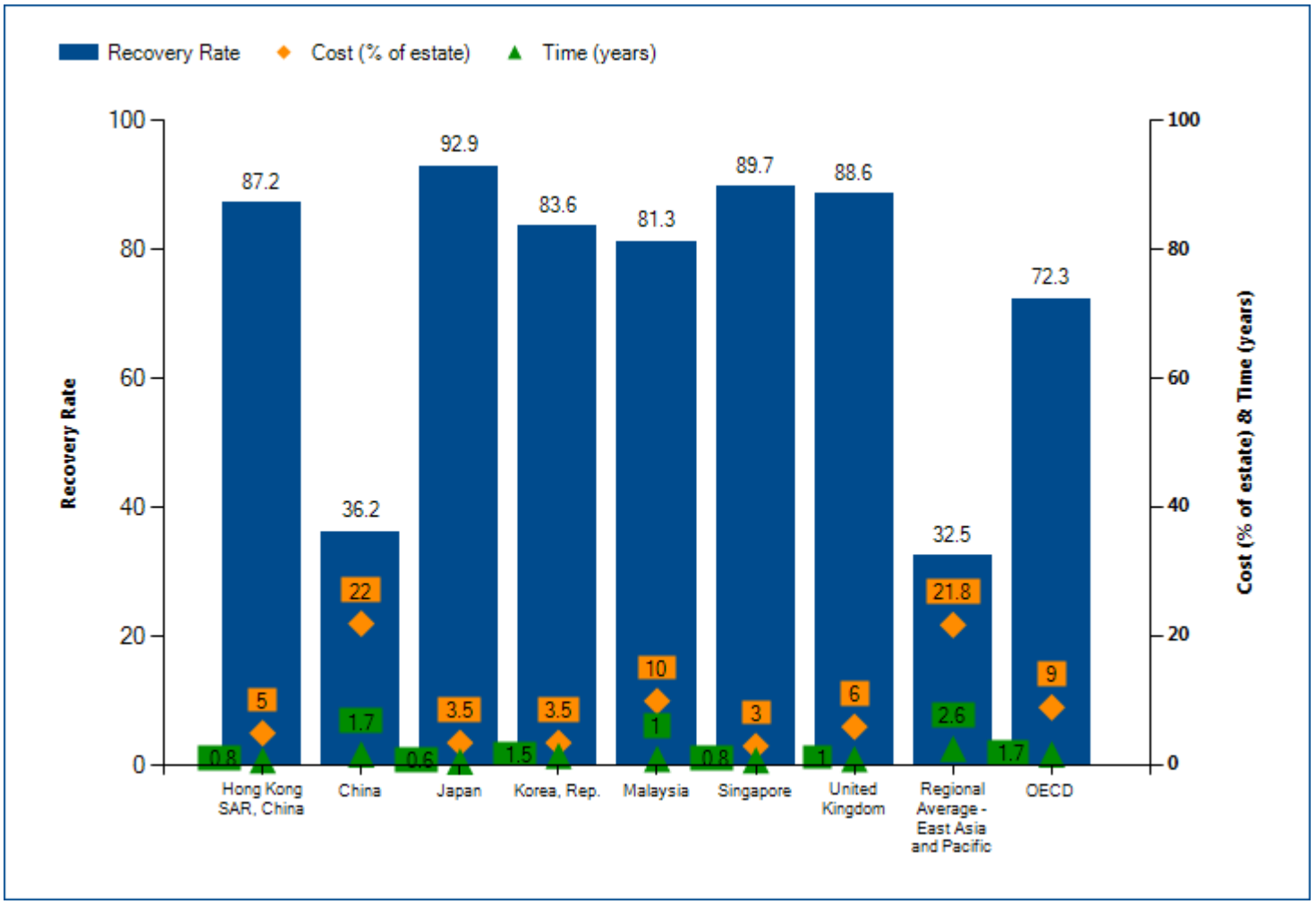
The resolving insolvency indicators are based on detailed information collected through questionnaires completed by insolvency experts, including lawyers, practitioners (administrators, trustees), accountants and judges. Data on the time, cost and outcome refer to the most likely in-court insolvency procedure applicable under specific case study assumptions. Data on provisions applicable to judicial liquidation and reorganization is based on the current law governing insolvency proceedings in each economy.

Figure 11.1 How Hong Kong SAR, China and comparator economies rank on the ease of resolving insolvency




*Source: Doing Business* database.

Figure 11.2 Efficiency of proceedings - time, cost and recovery rate in Hong Kong SAR, China and comparator economies.




*Source: Doing Business* database.

*Note:* The recovery rate is calculated based on the time, cost and outcome of insolvency proceedings involving domestic legal entities and is recorded as cents on the dollar recovered by secured creditors. The calculation takes into account the outcome: whether the business emerges from the proceedings as a going concern or the assets are sold piecemeal. Then the costs of the proceedings are deducted. Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account. The recovery rate is the present value of the remaining proceeds, based on end-2014 lending rates.

Table 11.1 Details of data on efficiency of insolvency proceedings in Hong Kong SAR, China

| Indicator | Answer | Explanation |
|---|---|---|
| Proceeding | receivership | As a secured creditor, by applying the Companies (Winding Up and Miscellaneous Provisions) Ordinance, BizBank would appoint a receiver to take charge of Mirage's business and try to sell the business as a going concern to recoup its investment. From BizBank's perspective, selling the business as a going concern would satisfy its secured debt in full according to the case assumption |
| Outcome | going concern | Carrying business as a going concern will continue to generate cash flow to maintain the company operating as financially troubled company usually has very tight cash flow. Ceased business will cause immediate departure of employees, suppliers will walk away and petition for winding-up and attract complaints by customers which cause intervention from Government because of the public interest. |
| Time (in years) | 0.8 | It may take an average 10 months from Mirage's default until BizBank is repaid some of the money owed to it after the completion of the receivership proceeding. After BizBank's appointment of the receiver, it takes about 1 month for the receiver to notify the Companies Registry of the appointment and for the Receiver to review the current financial status and immediate cash flow needs to maintain the hotel's on-going operations. In the meantime, usually 2-3 months are required for the accounting records of the hotel to be updated for preparation of the Statement of Affairs submitted by Mirage's management. This is crucial for the subsequent due diligence review by perspective buyers. 2 to 4 weeks more will be taken for the Receivers to report to creditors concerned and decide on the selling mode before the auctioneer will be appointed; and the organization, selection of buyer, negotiation, execution of the sale and sale proceeds payment would take another 6 months. |
| Cost (% of estate) | 5.0 | The costs associated with the case would amount to approximately 5% of the value of the debtor's estate. Cost incurred during the entire receivership proceeding mainly include court or government agency fees (0.5%), attorney fees (2%), costs of notification and publication (HKD 20,000), receiver fees (2%), fees of accountants, assessors, inspectors and other professionals (0.5%), and fees of service providers and/or government levies (0.1%). |
| ***Recovery rate:*** *87.20* | | |

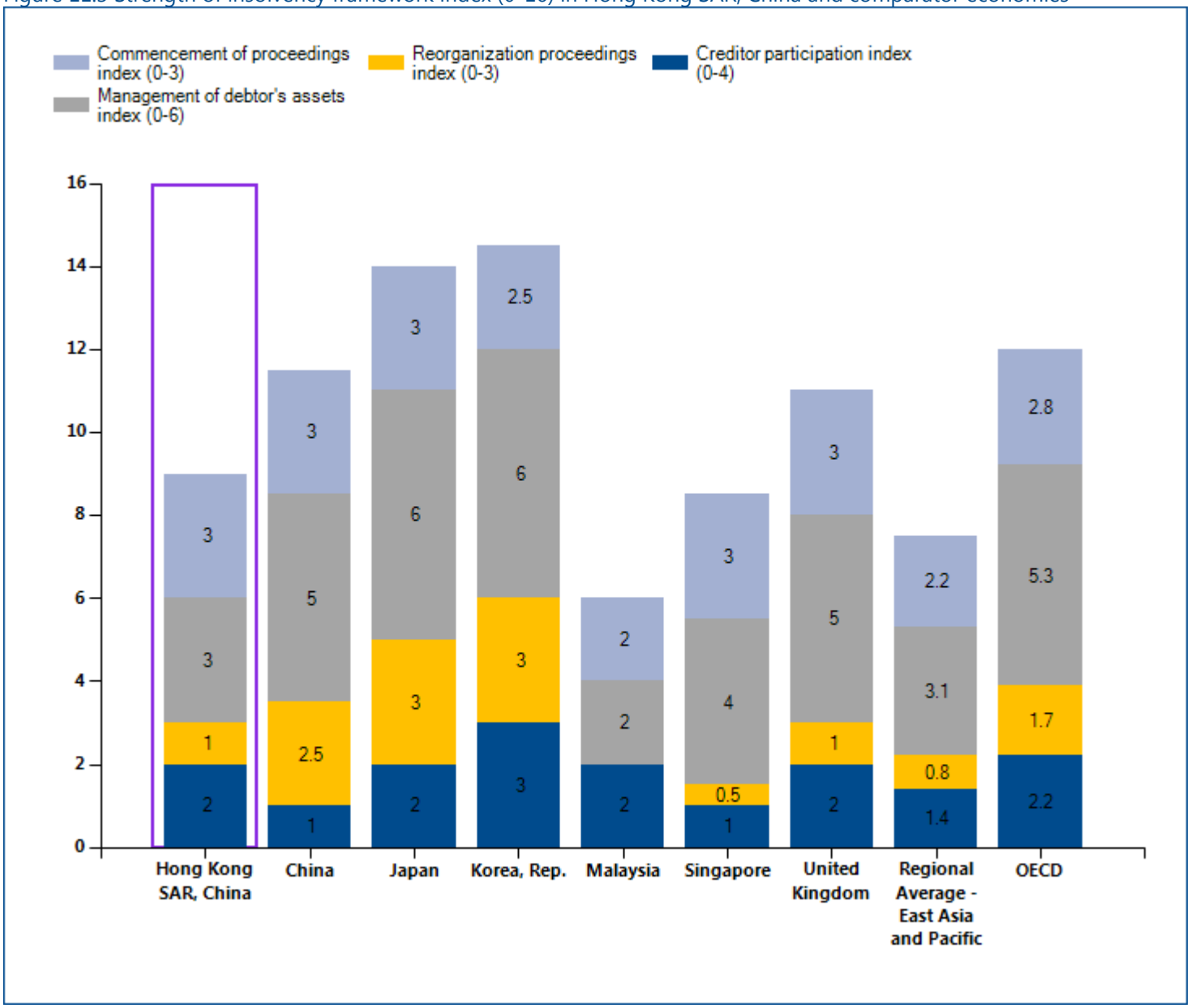
*Source: Doing Business* database.

## RESOLVING INSOLVENCY

### Strength of resolving insolvency index

The strength of insolvency framework index is the sum of the scores on the commencement of proceedings index, management of debtor's assets index, reorganization proceedings index and creditor participation index. The index ranges from 0 to 16, with higher values indicating insolvency legislation that is better designed for rehabilitating viable firms and liquidating nonviable ones. Hong Kong SAR, China's score on the strength of insolvency framework index is 9.00 out of 16.

Figure 11.3 Strength of insolvency framework index (0-16) in Hong Kong SAR, China and comparator economies




*Source: Doing Business* database.
*Note:* Even if the economy's legal framework includes provisions related to insolvency proceedings (liquidation or reorganization), the economy receives 0 points for the strength of insolvency framework index, if time, cost and outcome indicators are recorded as "no practice".

Table 11.3 Summary of data for the strength of insolvency framework index in Hong Kong SAR, China

| | Answer | Score |
|---|---|---|
| Strength of insolvency framework index (0-16) | | 9.00 |
| Commencement of proceedings index (0-3) | | 3.00 |
| What procedures are available to a DEBTOR when commencing insolvency proceedings? | (a) Debtor may file for both liquidation and reorganization | 1.0 |
| Does the insolvency framework allow a CREDITOR to file for insolvency of the debtor? | (a) Yes, a creditor may file for both liquidation and reorganization | 1.0 |
| What basis for commencement of the insolvency proceedings is allowed under the insolvency framework? | (a) Debtor is generally unable to pay its debts as they mature | 1.0 |
| Management of debtor's assets index (0-6) | | 3.00 |
| Does the insolvency framework allow the continuation of contracts supplying essential goods and services to the debtor? | No | 0.0 |
| Does the insolvency framework allow the rejection by the debtor of overly burdensome contracts? | Yes | 1.0 |
| Does the insolvency framework allow avoidance of preferential transactions? | Yes | 1.0 |
| Does the insolvency framework allow avoidance of undervalued transactions? | Yes | 1.0 |
| Does the insolvency framework provide for the possibility of the debtor obtaining credit after commencement of insolvency proceedings? | No | 0.0 |
| Does the insolvency framework assign priority to post-commencement credit? | (c) No priority is assigned to post-commencement creditors | 0.0 |
| Reorganization proceedings index (0-3) | | 1.00 |
| Which creditors vote on the proposed reorganization plan? | (b) Only creditors whose rights are affected by the proposed plan | 1.0 |
| Does the insolvency framework require that dissenting creditors in reorganization receive at least as much as what they would obtain in a liquidation? | No | 0.0 |
| Are the creditors divided into classes for the purposes of voting on the reorganization plan, does each class vote separately and are creditors in | No | 0.0 |

| | Answer | Score |
|---|---|---|
| the same class treated equally? | | |
| Creditor participation index (0-4) | | 2.00 |
| Does the insolvency framework require approval by the creditors for selection or appointment of the insolvency representative? | Yes | 1.0 |
| Does the insolvency framework require approval by the creditors for sale of substantial assets of the debtor? | No | 0.0 |
| Does the insolvency framework provide that a creditor has the right to request information from the insolvency representative? | No | 0.0 |
| Does the insolvency framework provide that a creditor has the right to object to decisions accepting or rejecting creditors' claims? | Yes | 1.0 |

*Source: Doing Business* database.

# LABOR MARKET REGULATION

*Doing Business* has historically studied the flexibility of regulation of employment, specifically as it relates to the areas of hiring, working hours and redundancy. This year *Doing Business* has expanded the scope of the labor market regulation indicators by adding 16 new questions, most of which focus on measuring job quality.

Over the period from 2007 to 2011 improvements were made to align the methodology for the labor market regulation indicators (formerly the employing workers indicators) with the letter and spirit of the International Labour Organization (ILO) conventions. Ten of the 189 ILO conventions cover areas now measured by *Doing Business* (up from four previously): employee termination, weekend work, holiday with pay, night work, protection against unemployment, sickness benefits, maternity protection, working hours, equal remuneration and labor inspections.

Between 2009 and 2011 the World Bank Group worked with a consultative group—including labor lawyers, employer and employee representatives, and experts from the ILO, the Organisation for Economic Co-operation and Development (OECD), civil society and the private sector—to review the methodology for the labor market regulation indicators and explore future areas of research.

A full report with the conclusions of the consultative group, along with the methodology it proposed, is available on the *Doing Business* website at: http://www.doingbusiness.org/methodology/labor-market-regulation.

*Doing Business 2016* presents the data for the labor market regulation indicators in an annex. The report does not present rankings of economies on these indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business. Detailed data collected on labor market regulation are available on the *Doing Business* website (http://www.doingbusiness.org). The data on labor market regulation are based on a detailed questionnaire on employment regulations that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

To make the data comparable across economies, several assumptions about the worker and the business are used.

The worker:

- Is a cashier in a supermarket or grocery store, age 19, with one year of work experience.
- Is a full-time employee.
- Is not a member of the labor union, unless membership is mandatory.

The business:

- Is a limited liability company (or the equivalent in the economy).
- Operates a supermarket or grocery store in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Has 60 employees.
- Is subject to collective bargaining agreements if such agreements cover more than 50% of the food retail sector and they apply even to firms that are not party to them.
- Abides by every law and regulation but does not grant workers more benefits than those mandated by law, regulation or (if applicable) collective bargaining agreements.

## LABOR MARKET REGULATION

Employment laws are needed to protect workers from arbitrary or unfair treatment and to ensure efficient contracting between employers and workers. Many economies that changed their labor market regulation in the past 5 years did so in ways that increased labor market flexibility. What changes did Hong Kong SAR, China adopt that affected the *Doing Business* indicators on labor market regulation (table 12.1)?

Table 12.1 What changes did Hong Kong SAR, China make in terms of labor market regulation?

| DB year | Reform |
|---|---|
| **DB2012** | Hong Kong, China introduced a Minimum Wage. |

*Source: Doing Business* database.

# LABOR MARKET REGULATION

## What are the details?

The data reported here for Hong Kong SAR, China are based on a detailed survey of labor market regulation that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

### Hiring

Data on hiring cover five areas: (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; (iii) the minimum wage for a cashier, age 19, with one year of work experience; (iv) the ratio of the minimum wage to the average value added per worker (the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population), and (v) the availability of incentives for employers to hire employees under the age of 25*.

| Hiring | Data |
|---|---|
| Fixed-term contracts prohibited for permanent tasks? | No |
| Maximum length of a single fixed-term contract (months) | No limit |
| Maximum length of fixed-term contracts, including renewals (months) | No limit |
| Minimum wage applicable to the worker assumed in the case study (US$/month) | 852.1 |
| Ratio of minimum wage to value added per worker | 0.2 |
| Incentives for employing workers under age 25? | Yes |

*Source: Doing Business* database.

*A new question introduced in the *Doing Business 2016* report for the first time.

# LABOR MARKET REGULATION

## Working hours

Data on working hours cover nine areas: i) the maximum number of working days allowed per week; (ii) the premium for night work (as a percentage of hourly pay); (iii) the premium for work on a weekly rest day (as a percentage of hourly pay); (iv) the premium for overtime work (as a percentage of hourly pay)*; (v) whether there are restrictions on night work; (vi) whether nonpregnant and nonnursing women can work the same night hours as men*; (vii) whether there are restrictions on weekly holiday work; (viii) whether there are restrictions on overtime work*; and (ix) the average paid annual leave for workers with 1 year of tenure, 5 years of tenure, and 10 years of tenure.

| Working Hours | Data |
|---|---|
| Maximum number of working days per week | 6.0 |
| Premium for night work (% of hourly pay) | 0.0 |
| Premium for work on weekly rest day (% of hourly pay) | 0.0 |
| Premium for overtime work (% of hourly pay) | 0.0 |
| Restrictions on night work? | 0.0 |
| Whether nonpregnant and nonnursing women can work the same night hours as men | Yes |
| Restrictions on weekly holiday? | 0.0 |
| Restrictions on overtime work? | No |
| Paid annual leave for a worker with 1 year of tenure (working days) | 7.0 |
| Paid annual leave for a worker with 5 years of tenure (working days) | 10.0 |
| Paid annual leave for a worker with 10 years of tenure (working days) | 14.0 |
| Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days) | 10.3 |

*Source: Doing Business* database.
*A new question introduced in the *Doing Business 2016* report for the first time.

# LABOR MARKET REGULATION

## Redundancy rules

Data on redundancy cover nine areas: (i) the length of the maximum probationary period (in months) for permanent employees; (ii) whether redundancy is allowed as a basis for terminating workers; (iii) whether the employer needs to notify a third party (such as a government agency) to terminate one redundant worker; (iv) whether the employer needs to notify a third party to terminate a group of nine redundant workers; (v) whether the employer needs approval from a third party to terminate one redundant worker; (vi) whether the employer needs approval from a third party to terminate a group of nine redundant workers; (vii) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (viii) whether priority rules apply for redundancies; and (ix) whether priority rules apply for reemployment.

| Redundancy rules | Data |
|---|---|
| Maximum length of probationary period (months) | 1.0 |
| Dismissal due to redundancy allowed by law? | Yes |
| Third-party notification if one worker is dismissed? | No |
| Third-party approval if one worker is dismissed? | No |
| Third-party notification if nine workers are dismissed? | No |
| Third-party approval if nine workers are dismissed? | No |
| Retraining or reassignment obligation before redundancy? | No |
| Priority rules for redundancies? | No |
| Priority rules for reemployment? | No |

*Source: Doing Business* database.

# LABOR MARKET REGULATION

## Redundancy cost

Redundancy cost measures the cost of advance notice requirements and severance payments due when terminating a redundant worker, expressed in weeks of salary. The average value of notice requirements and severance payments applicable to a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is considered. One month is recorded as 4 and 1/3 weeks.

| Redundancy cost indicator (in salary weeks) | Data |
|---|---|
| Notice period for redundancy dismissal for a worker with 1 year of tenure | 4.3 |
| Notice period for redundancy dismissal for a worker with 5 years of tenure | 4.3 |
| Notice period for redundancy dismissal for a worker with 10 years of tenure | 4.3 |
| Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure) | 4.3 |
| Severance pay for redundancy dismissal for a worker with 1 year of tenure | 0.0 |
| Severance pay for redundancy dismissal for a worker with 5 years of tenure | 1.4 |
| Severance pay for redundancy dismissal for a worker with 10 years of tenure | 2.9 |
| Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure) | 1.4 |

*Source: Doing Business* database.

# LABOR MARKET REGULATION

## Job quality

*Doing Business 2016* report presents, for the first time, data on 12 job quality areas: (i) whether the law mandates equal remuneration for work of equal value; (ii) whether the law mandates nondiscrimination based on gender in hiring, (iii) whether the law mandates paid or unpaid maternity leave; (iv) the minimum length of maternity leave in calendar days (minimum number of days that legally have to be paid by the government, the employer or both); (v) whether employees on maternity leave receive 100 % of wages; (vi) the availability of five fully paid days of sick leave a year; (vii) the availability of on-the-job training at no cost to the employee; (viii) whether a worker is eligible for an unemployment protection scheme after one year of service; (ix) the minimum duration of the contribution period (in months) required for unemployment protection; (x) whether an employee can create or join a union; (xi) the availability of administrative or judicial relief in case of infringement of employees' rights; and (xii) the availability of a labor inspection system. If no maternity leave is mandated by law, parental leave is measured if applicable.

| Job Quality | Data |
|---|---|
| Equal remuneration for work of equal value? | No |
| Gender nondiscrimination in hiring? | Yes |
| Paid or unpaid maternity leave mandated by law? | Yes |
| Minimum length of maternity leave (calendar days)? | 70.0 |
| Receive 100% of wages on maternity leave? | No |
| Five fully paid days of sick leave a year? | No |
| On-the-job training? | No |
| Unemployment protection after one year of employment? | Yes |
| Minimum contribution period for unemployment protection (months)? | 0.0 |
| Can employee create or join union? | Yes |
| Administrative or judicial relief for infringement of employees' rights? | Yes |
| Labor inspection system? | Yes |

*Source: Doing Business* database.

# DISTANCE TO FRONTIER AND EASE OF DOING BUSINESS RANKING

*Doing Business* presents results for two aggregate measures: the distance to frontier score and the ease of doing business ranking, which is based on the distance to frontier score. The ease of doing business ranking compares economies with one another; the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each *Doing Business* indicator. When compared across years, the distance to frontier score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies.

## Distance to Frontier

The distance to frontier score captures the gap between an economy's performance and a measure of best practice across the entire sample of 36 indicators for 10 *Doing Business* topics (the labor market regulation indicators are excluded). For starting a business, for example, the former Yugoslav Republic of Macedonia and New Zealand have the smallest number of procedures required (1), and New Zealand the shortest time to fulfill them (0.5 days). Slovenia has the lowest cost (0.0), and Australia, Colombia and 103 other economies have no paid-in minimum capital requirement (table 14.1 in the *Doing Business 2016* report).

### Calculation of the distance to frontier score

Calculating the distance to frontier score for each economy involves two main steps. In the first step individual component indicators are normalized to a common unit where each of the 36 component indicators y (except for the total tax rate) is rescaled using the linear transformation (worst − y)/(worst − frontier). In this formulation the frontier represents the best performance on the indicator across all economies since 2005 or the third year in which data for the indicator were collected. Both the best performance and the worst performance are established every five years based on the *Doing Business* data for the year in which they are established, and remain at that level for the five years regardless of any changes in data in interim years. Thus an economy may set the frontier for an indicator even though it is no longer at the frontier in a subsequent year.

For scores such as those on the strength of legal rights index or the quality of land administration index, the frontier is set at the highest possible value. For the total tax rate, consistent with the use of a threshold in calculating the rankings on this indicator, the frontier is defined as the total tax rate at the 15th percentile of the overall distribution for all years included in the analysis up to and including *Doing Business 2015*. For the time to pay taxes the frontier is defined as the lowest time recorded among all economies that levy the three major taxes: profit tax, labor taxes and mandatory contributions, and value added tax (VAT) or sales tax. For the different times to trade across borders, the frontier is defined as 1 hour even though in many economies the time is less than that.

In the same formulation, to mitigate the effects of extreme outliers in the distributions of the rescaled data for most component indicators (very few economies need 700 days to complete the procedures to start a business, but many need 9 days), the worst performance is calculated after the removal of outliers. The definition of outliers is based on the distribution for each component indicator. To simplify the process two rules were defined: the 95th percentile is used for the indicators with the most dispersed distributions (including minimum capital, number of payments to pay taxes, and the time and cost indicators), and the 99th percentile is used for number of procedures. No outlier is removed for component indicators bound by definition or construction, including legal index scores (such as the depth of credit information index, extent of conflict of interest regulation index and strength of insolvency framework index) and the recovery rate (figure 14.1).

In the second step for calculating the distance to frontier score, the scores obtained for individual indicators for each economy are aggregated through simple averaging into one distance to frontier score, first for each topic and then across all 10 topics: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly

identical to the simple average used by *Doing Business*[4]. Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components[5].

An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. All distance to frontier calculations are based on a maximum of five decimals. However, indicator ranking calculations and the ease of doing business ranking calculations are based on two decimals.

The difference between an economy's distance to frontier score in any previous year and its score in 2015 illustrates the extent to which the economy has closed the gap to the regulatory frontier over time. And in any given year the score measures how far an economy is from the best performance at that time.

### Treatment of the total tax rate

The total tax rate component of the paying taxes indicator set enters the distance to frontier calculation in a different way than any other indicator. The distance to frontier score obtained for the total tax rate is transformed in a nonlinear fashion before it enters the distance to frontier score for paying taxes. As a result of the nonlinear transformation, an increase in the total tax rate has a smaller impact on the distance to frontier score for the total tax rate—and therefore on the distance to frontier score for paying taxes—for economies with a below-average total tax rate than it would have had before this approach was adopted in *Doing Business 2015* (line B is smaller than line A in figure 14.2 of the *Doing Business 2016* report). And for economies with an extreme total tax rate (a rate that is very high relative to the average), an increase has a greater impact on both these distance to frontier scores than it would have had before (line D is bigger than line C in figure 14.2 of the *Doing Business 2016* report).

The nonlinear transformation is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in an economy's overall tax system. Instead, it is mainly empirical in nature. The nonlinear transformation along with the threshold reduces the bias in the indicator toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). In addition, it acknowledges the need of economies to collect taxes from firms.

### Calculation of scores for economies with 2 cities covered

For each of the 11 economies in which *Doing Business* collects data for the second largest business city as well as the largest one, the distance to frontier score is calculated as the population-weighted average of the distance to frontier scores for these two cities (table 13.1). This is done for the aggregate score, the scores for each topic and the scores for all the component indicators for each topic.

[4] See Djankov, Manraj and others (2005). Principal components and unobserved components methods yield a ranking nearly identical to that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.

[5] For getting credit, indicators are weighted proportionally, according to their contribution to the total score, with a weight of 60% assigned to the strength of legal rights index and 40% to the depth of credit information index. Indicators for all other topics are assigned equal weights

Table 13.1 Weights used in calculating the distance to frontier scores for economies with 2 cities covered

| Economy | City | Weight (%) |
|---|---|---|
| Bangladesh | Dhaka | 78 |
| | Chittagong | 22 |
| Brazil | São Paulo | 61 |
| | Rio de Janeiro | 39 |
| China | Shanghai | 55 |
| | Beijing | 45 |
| India | Mumbai | 47 |
| | Delhi | 53 |
| Indonesia | Jakarta | 78 |
| | Surabaya | 22 |
| Japan | Tokyo | 65 |
| | Osaka | 35 |
| Mexico | Mexico City | 83 |
| | Monterrey | 17 |
| Nigeria | Lagos | 77 |
| | Kano | 23 |
| Pakistan | Karachi | 65 |
| | Lahore | 35 |
| Russian Federation | Moscow | 70 |
| | St. Petersburg | 30 |
| United States | New York | 60 |
| | Los Angeles | 40 |

*Source:* United Nations, Department of Economic and Social Affairs, Population Division, World Urbanization Prospects, 2014 Revision. http://esa.un.org/unpd/wup/CD-ROM/Default.aspx.

### Economies that improved the most across 3 or more *Doing Business* topics in 2014/15

*Doing Business 2016* uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2014/15 implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate distance to frontier score. Changes making it more difficult to do business are subtracted from the total number of those making it easier to do business. Twenty-four economies meet this criterion: Armenia; Azerbaijan; Benin; Costa Rica; Côte d'Ivoire; Cyprus; Hong Kong SAR, China; Indonesia; Jamaica; Kazakhstan; Kenya; Lithuania; Madagascar; Mauritania; Morocco; Romania; the Russian Federation; Rwanda; Senegal; Togo; Uganda; the United Arab Emirates; Uzbekistan; and Vietnam. Second, *Doing Business* sorts these economies on the increase in their distance to frontier score from the previous year using comparable data.

Selecting the economies that implemented regulatory reforms in at least three topics and had the biggest improvements in their distance to frontier scores is intended to highlight economies with ongoing, broad-based reform programs. The improvement in the distance to frontier score is used to identify the top improvers because this allows a focus on the absolute improvement—in contrast with the relative improvement shown by a change in rankings—that economies have made in their regulatory environment for business.

## Ease of *Doing Business* ranking

The ease of doing business ranking ranges from 1 to 189. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to 2 decimals.

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