A World Bank Group Flagship Report

14TH EDITION

Doing Business 2017

Equal Opportunity for All

Economy Profile 2017

Tonga

© 2017 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW, Washington DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

Some rights reserved
1 2 3 4 19 18 17 16

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions

This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO) http://creativecommons.org/licenses/by/3.0/igo. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

Attribution—Please cite the work as follows: World Bank. 2017. *Doing Business 2017: Equal Opportunity for All*. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0948-4. License: Creative Commons Attribution CC BY 3.0 IGO

Translations—If you create a translation of this work, please add the following disclaimer along with the attribution: *This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.*

Adaptations—If you create an adaptation of this work, please add the following disclaimer along with the attribution: *This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by The World Bank.*

.

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to re-use a component of the work, it is your responsibility to determine whether permission is needed for that re-use and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to World Bank Publications, The World Bank Group,
1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.

ISBN (paper): 978-1-4648-0948-4
ISBN (electronic): 978-1-4648-0984-2
DOI: 10.1596/978-1-4648-0948-4
ISSN: 1729-2638

COVER DESIGN: CORPORATE VISIONS, INC.

CONTENTS

Introduction 4
Starting a business 17
Dealing with construction permits 24
Getting electricity 36
Registering property 45
Getting credit 55
Protecting minority investors 61
Paying taxes 68
Trading across borders 75
Enforcing contracts 81
Resolving insolvency 88
Labor market regulation 96
Distance to frontier and ease of doing business ranking 102
Resources on the *Doing Business* website 105

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 2017* 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 190 economies, from Afghanistan to Zimbabwe, over time. The data set covers 48 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 Tonga. 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, 2016 (except for the paying taxes indicators, which cover the period January–December 2015).

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 2017* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2017*, are available on the *Doing Business* website at http://www.doingbusiness.org.

CHANGES IN *DOING BUSINESS 2017*

As part of a three-year update in methodology, *Doing Business 2017* expands further by adding postfiling processes to the paying taxes indicator, including a gender component in three of the indicators and developing a new pilot indicator on selling to the government. Also, for the first time this year *Doing Business* collects data on Somalia, bringing the total number of economies covered to 190.

The paying taxes indicator is expanded this year to include postfiling processes – those processes that occur after a firm complies with its regular tax obligations. These include tax refunds, tax audits and tax appeals. In particular, *Doing Business* measures the time it takes to get a value added tax (VAT) refund, deal with a simple mistake on a corporate tax return that can potentially trigger an audit and good practices with administrative appeals process.

This year's *Doing Business* report presents a gender dimension in four of the indicator sets: starting a business, registering property, enforcing contracts and labor market regulation. Three of these areas are included in the distance to frontier score and in the ease of doing business ranking, while the fourth—labor market regulation—is not.

Doing Business has traditionally assumed that the entrepreneurs or workers discussed in the case studies were men. This was incomplete by not reflecting correctly the *Doing Business* processes as applied to women—which in some economies may be different from the processes applied to men. Starting this year, *Doing Business* measures the starting a business process for two case scenarios: one where all entrepreneurs are men and one where all entrepreneurs are women. In economies where the processes are more onerous if the entrepreneur is a woman, *Doing Business* now counts the extra procedures applied to roughly half of the population that is female (for example, obtaining a husband's consent or gender-specific requirements for opening a personal bank account when starting a business). Within the registering property indicators, a gender component has been added to the quality of land administration index. This component measures women's ability to use, own, and transfer property according to the law. Finally, within the enforcing contracts indicator set, economies will be scored on having equal evidentiary weight of women's testimony in court.

Also for the first time this year *Doing Business* collects data on Somalia, bringing the total number of economies covered to 190.

For more details on the changes, see the ""Old and new factors covered in *Doing Business*" section in the Overview chapter starting on page 1 of the *Doing Business 2017* report. For more details on the data and methodology, please see the "Data Notes" chapter starting on page 114 of the *Doing Business 2017* 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 190 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 2017*: 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: Lower middle income

Population: 106,170

GNI per capita (US$): 4,067

DB2017 rank: 85

DB2016 rank: 76*

Change in rank: -9

DB 2017 DTF: 63.58

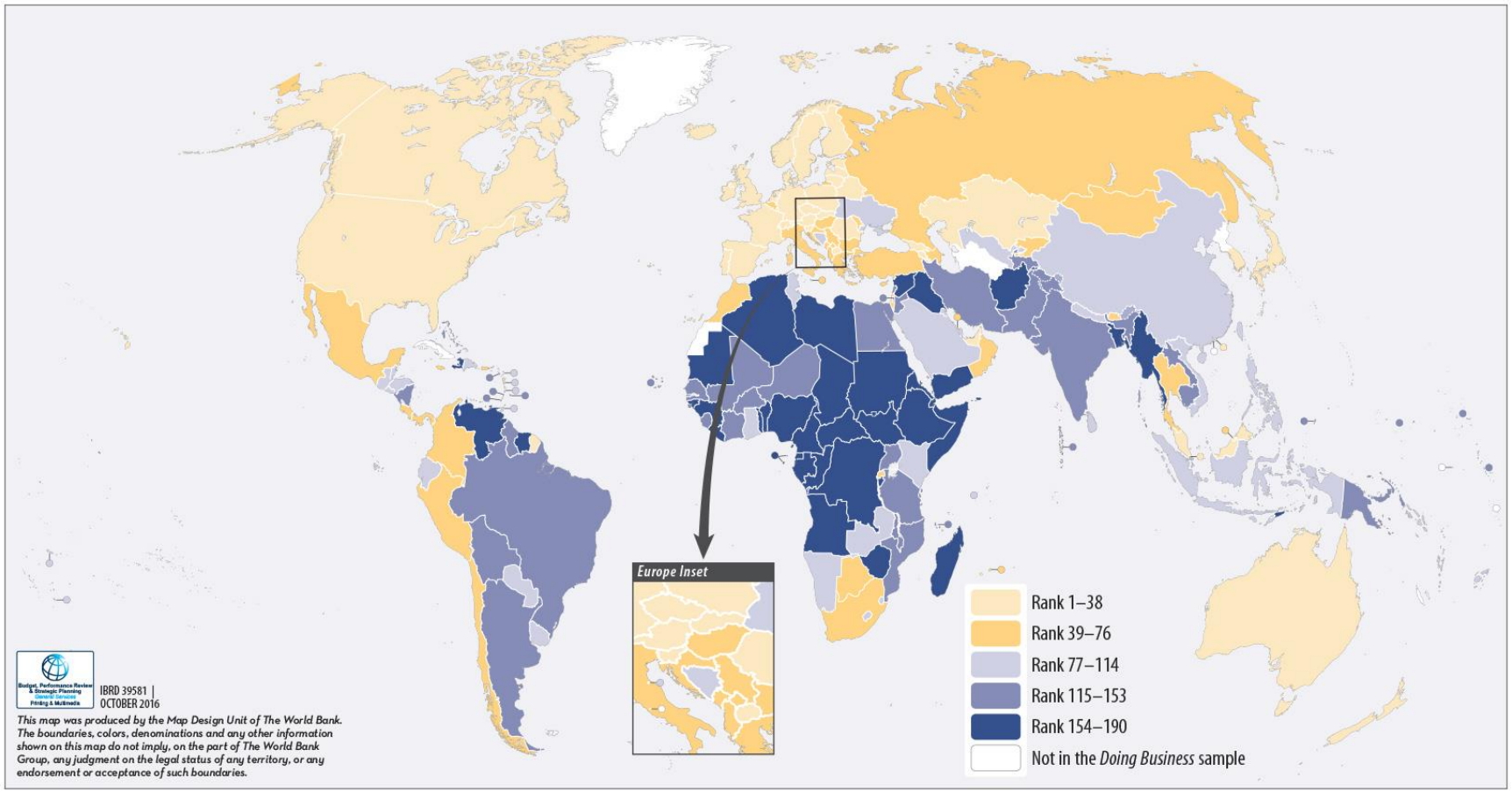
DB 2016 DTF: 63.83

Change in DTF: -0.25

* DB2016 ranking shown is not last year's published ranking but a comparable ranking for DB2016 that captures the effects of such factors as data revisions and the changes in methodology. See the data notes starting on page 114 of the *Doing Business 2017* report for sources and definitions.

THE BUSINESS ENVIRONMENT

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

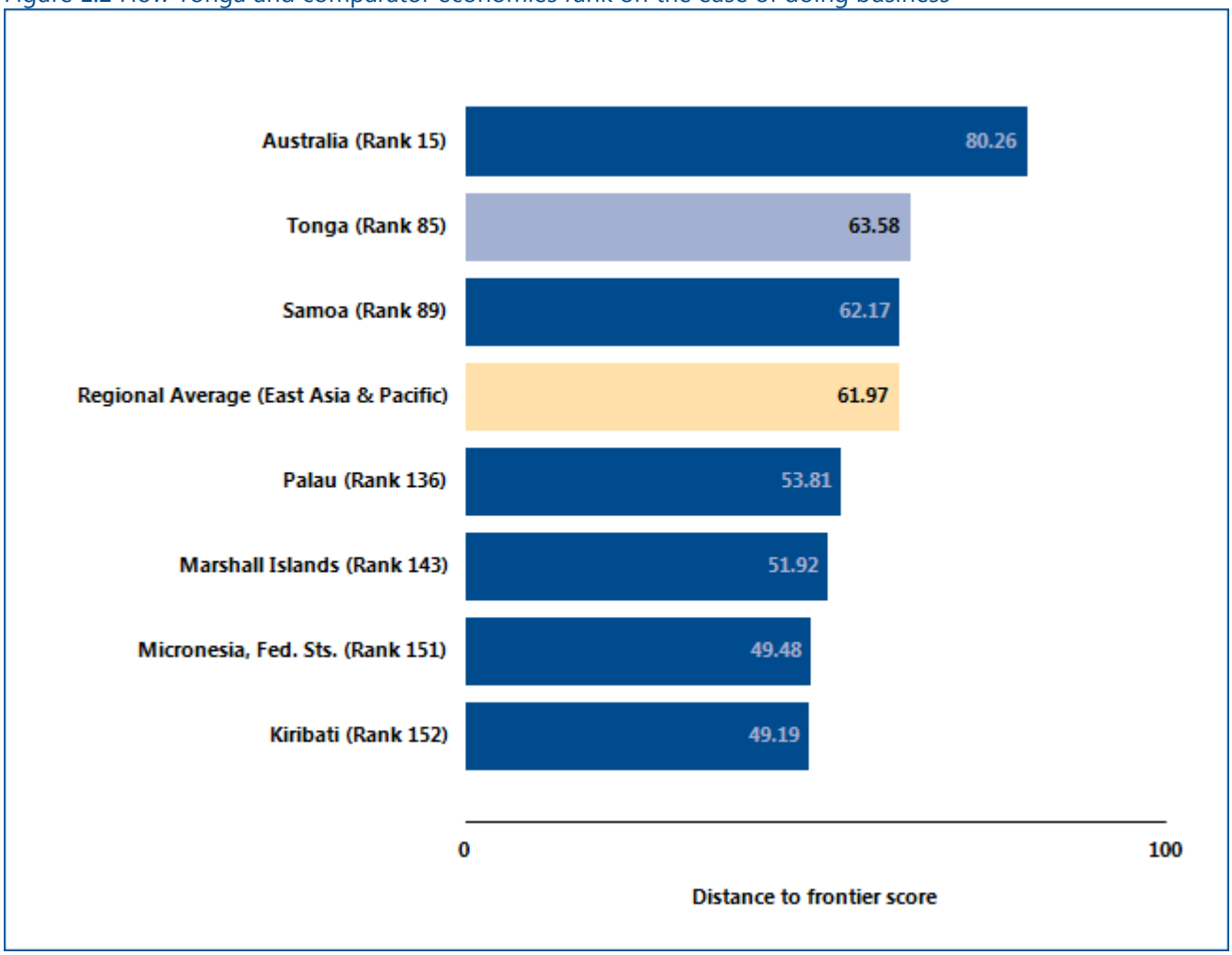


Source: Doing Business database.

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 Tonga and comparator economies rank on the ease of doing business



Note: The rankings are benchmarked to June 2016 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 - Tonga
(Scale: Rank 190 center, Rank 1 outer edge)

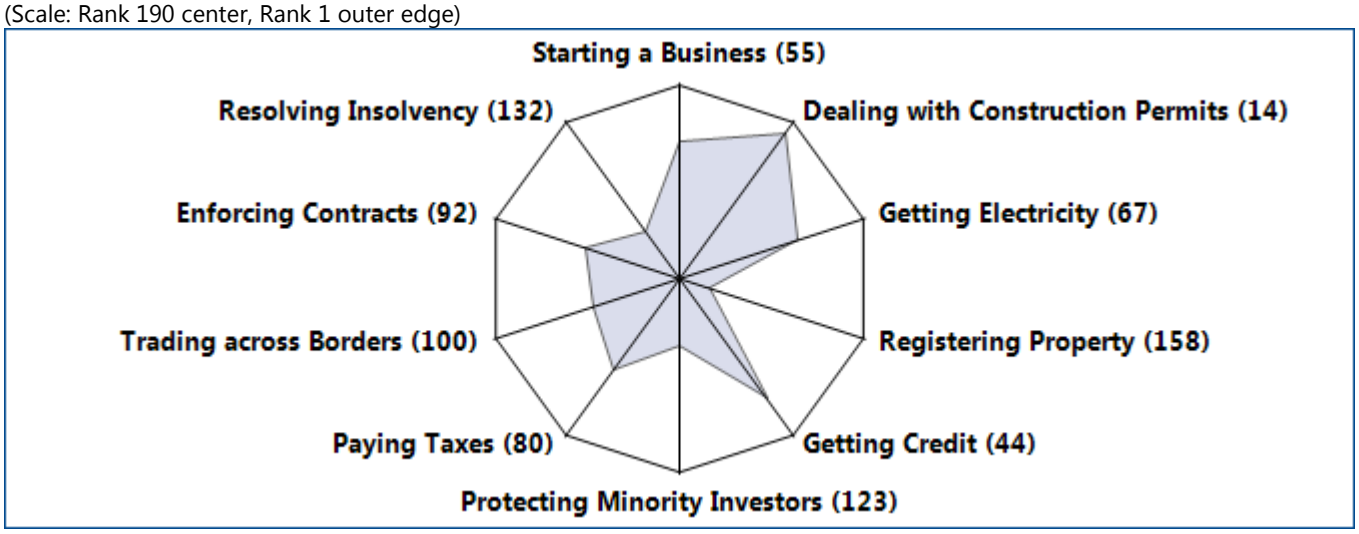
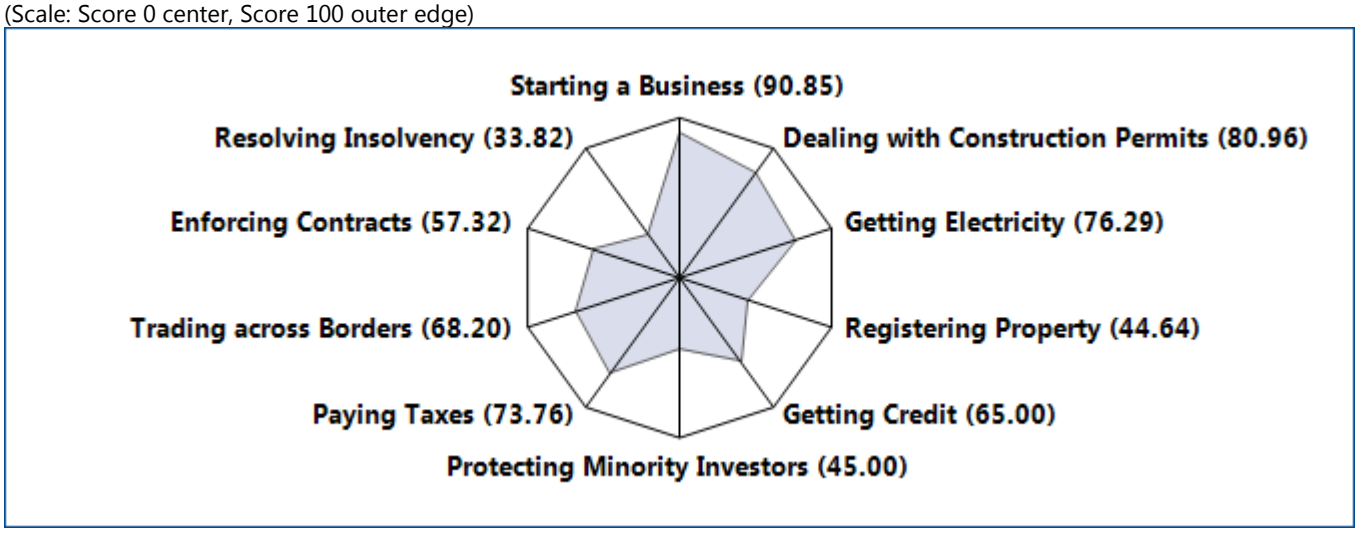


Figure 1.4 Distance to frontier scores on *Doing Business* topics - Tonga
(Scale: Score 0 center, Score 100 outer edge)



Source: Doing Business database.
Note: The rankings are benchmarked to June 2016 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.

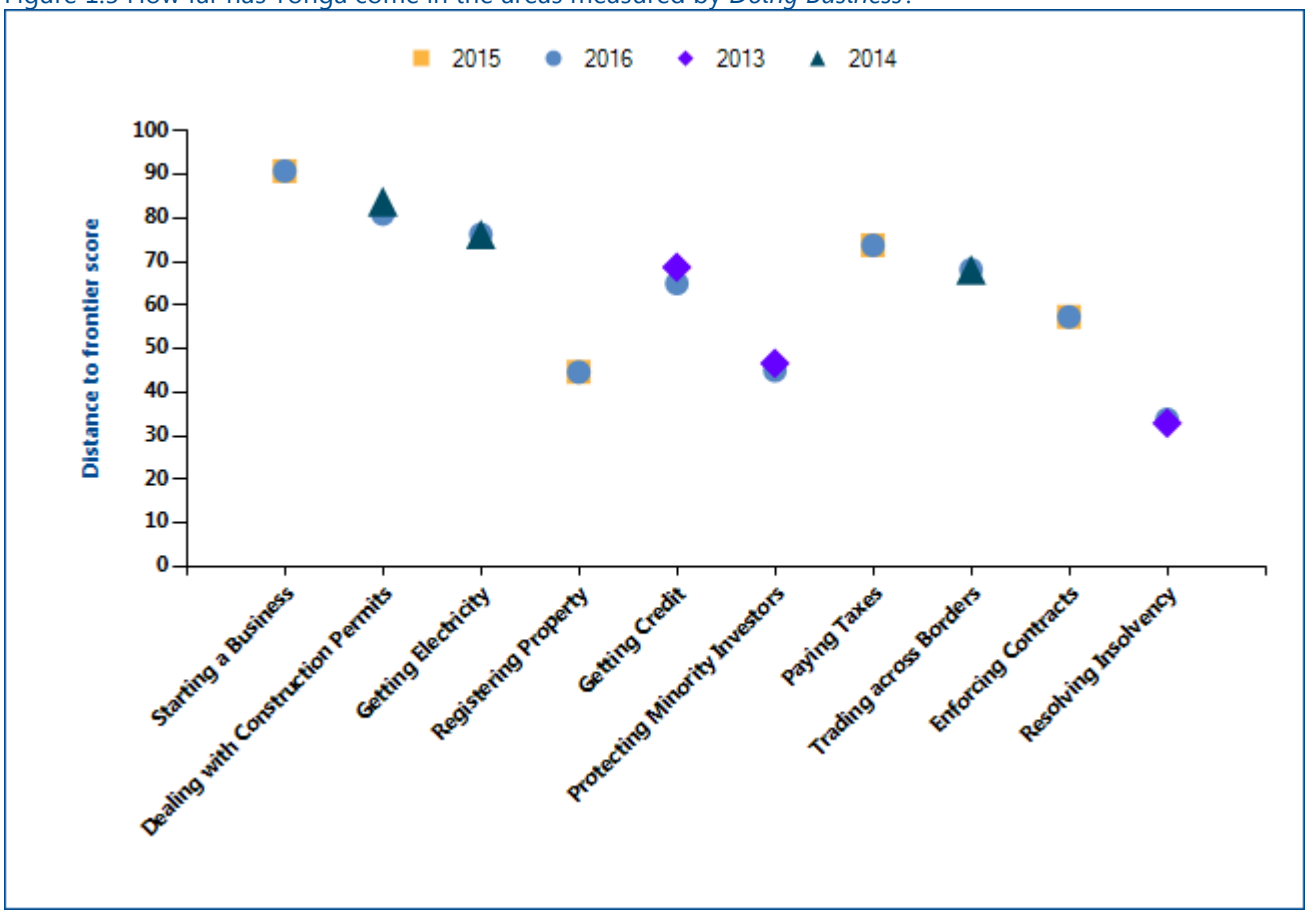
THE BUSINESS ENVIRONMENT

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 Tonga 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. Getting credit, protecting minority investors and resolving insolvency had methodology changes in 2014 and thus are only comparable to 2013. Dealing with construction permits, getting electricity and trading across borders had methodology changes in 2015 and thus are only comparable to 2014. Starting a business, registering property, paying taxes and enforcing contracts had methodology changes in 2016 and thus are only comparable to 2015. 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 114 of the *Doing Business 2017* 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 Tonga

Indicator	Tonga DB2017	Tonga DB2016	Australia DB2017	Kiribati DB2017	Marshall Islands DB2017	Micronesia, Fed. Sts. DB2017	Palau DB2017	Samoa DB2017	Best performer globally DB2017
Starting a Business (Rank)	55	48	7	140	70	167	120	37	1 (New Zealand)
Starting a Business (DTF Score)	90.85	90.75	96.47	78.17	88.41	69.73	81.95	92.49	99.96 (New Zealand)
Procedure – Men (number)	4.0	4.0	3.0	7.0	5.0	7.0	8.0	4.0	1.0 (New Zealand)
Time – Men (days)	16.0	16.0	2.5	31.0	17.0	16.0	28.0	9.0	0.5 (New Zealand)
Cost – Men (% of income per capita)	6.8	7.5	0.7	36.3	12.5	140.4	2.9	7.7	0.0 (Slovenia)
Procedure – Women (number)	4.0	4.0	3.0	7.0	5.0	7.0	8.0	4.0	1.0 (New Zealand)
Time – Women (days)	16.0	16.0	2.5	31.0	17.0	16.0	28.0	9.0	0.5 (New Zealand)
Cost – Women (% of income per capita)	6.8	7.5	0.7	36.3	12.5	140.4	2.9	7.7	0.0 (Slovenia)
Paid-in min. capital (% of income per capita)	0.0	0.0	0.0	13.0	0.0	0.0	7.7	0.0	0.0 (127 Economies*)
Dealing with Construction Permits	14	7	2	119	79	143	98	96	1 (New Zealand)

Indicator	Tonga DB2017	Tonga DB2016	Australia DB2017	Kiribati DB2017	Marshall Islands DB2017	Micronesia, Fed. Sts. DB2017	Palau DB2017	Samoa DB2017	Best performer globally DB2017
(Rank)									
Dealing with Construction Permits (DTF Score)	80.96	83.79	86.56	65.13	70.77	60.92	68.38	68.63	87.40 (New Zealand)
Procedures (number)	13.0	11.0	10.0	14.0	7.0	14.0	19.0	18.0	7.0 (4 Economies*)
Time (days)	77.0	62.0	112.0	149.0	38.0	86.0	72.0	58.0	28.0 (Korea, Rep.)
Cost (% of warehouse value)	1.9	2.1	0.5	0.3	2.4	0.6	0.8	0.9	0.1 (Trinidad and Tobago)
Building quality control index (0-15)	12.0	12.0	14.0	5.0	1.0	0.0	7.0	6.0	15.0 (Luxembourg*)
Getting Electricity (Rank)	67	64	41	164	126	107	138	59	1 (Korea, Rep.)
Getting Electricity (DTF Score)	76.29	76.26	82.31	43.95	59.14	64.32	54.84	79.61	99.88 (Korea, Rep.)
Procedures (number)	5.0	5.0	5.0	6.0	5.0	3.0	5.0	4.0	3.0 (15 Economies*)
Time (days)	42.0	42.0	75.0	97.0	67.0	105.0	125.0	34.0	18.0 (Korea, Rep.*)
Cost (% of income per capita)	85.9	95.3	12.6	3228.7	712.1	397.1	65.2	641.9	0.0 (Japan)
Reliability of supply and transparency of tariff index (0-8)	4.0	4.0	7.0	0.0	0.0	0.0	0.0	4.0	8.0 (26 Economies*)
Registering Property (Rank)	158	156	45	144	187	187	44	64	1 (New Zealand)
Registering Property (DTF Score)	44.64	44.64	74.22	49.13	0.00	0.00	75.16	69.12	94.46 (New Zealand)
Procedures (number)	4.0	4.0	5.0	5.0	no practice	no practice	5.0	5.0	1.0 (4 Economies*)

Indicator	Tonga DB2017	Tonga DB2016	Australia DB2017	Kiribati DB2017	Marshall Islands DB2017	Micronesia, Fed. Sts. DB2017	Palau DB2017	Samoa DB2017	Best performer globally DB2017
Time (days)	112.0	112.0	4.5	513.0	no practice	no practice	14.0	15.0	1.0 (3 Economies*)
Cost (% of property value)	15.1	15.1	5.2	0.0	no practice	no practice	0.2	3.8	0.0 (Saudi Arabia)
Quality of the land administration index (0-30)	17.0	17.0	20.0	9.0	0.0	0.0	12.5	12.5	29.0 (Singapore)
Getting Credit (Rank)	44	42	5	167	82	75	82	157	1 (New Zealand)
Getting Credit (DTF Score)	65.00	65.00	90.00	20.00	50.00	55.00	50.00	25.00	100.00 (New Zealand)
Strength of legal rights index (0-12)	10.0	10.0	11.0	4.0	10.0	11.0	10.0	5.0	12.0 (3 Economies*)
Depth of credit information index (0-8)	3.0	3.0	7.0	0.0	0.0	0.0	0.0	0.0	8.0 (30 Economies*)
Credit registry coverage (% of adults)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0 (3 Economies*)
Credit bureau coverage (% of adults)	17.3	12.2	100.0	0.0	0.0	0.0	0.0	0.0	100.0 (23 Economies*)
Protecting Minority Investors (Rank)	123	118	63	123	175	185	179	63	1 (New Zealand*)
Protecting Minority Investors (DTF Score)	45.00	45.00	58.33	45.00	31.67	25.00	28.33	58.33	83.33 (New Zealand*)
Strength of minority investor protection index (0-10)	4.5	4.5	5.8	4.5	3.2	2.5	2.8	5.8	8.3 (New Zealand*)
Extent of conflict of interest regulation index (0-10)	5.0	5.0	6.0	6.3	3.3	2.7	2.3	6.7	9.3 (New Zealand*)
Extent of shareholder governance index (0-	4.0	4.0	5.7	2.7	3.0	2.3	3.3	5.0	8.3 (Norway)

Indicator	Tonga DB2017	Tonga DB2016	Australia DB2017	Kiribati DB2017	Marshall Islands DB2017	Micronesia, Fed. Sts. DB2017	Palau DB2017	Samoa DB2017	Best performer globally DB2017
10)									
Paying Taxes (Rank)	80	78	25	73	82	108	118	71	1 (United Arab Emirates)
Paying Taxes (DTF Score)	73.76	73.76	85.6	75.08	73.45	68.78	64.65	76.93	99.44 (United Arab Emirates)
Payments (number per year)	30.0	30.0	11.0	11.0	9.0	21.0	11.0	37.0	3.0 (Hong Kong SAR, China*)
Time (hours per year)	200.0	200.0	105.0	168.0	120.0	128.0	142.0	224.0	55.0 (Luxembourg)
Total tax rate (% of profit)	30.1	30.1	47.6	32.7	64.8	60.5	75.4	18.5	26.1 (32 Economies*)
Postfiling index (0-100)	68.9	68.9	95.4	41.3				91.4	98.5 (Estonia)
Trading across Borders (Rank)	100	98	91	124	64	57	163	141	1 (10 Economies*)
Trading across Borders (DTF Score)	68.20	68.20	70.65	62.08	80.59	84.00	46.22	57.81	100.00 (10 Economies*)
Time to export: Border compliance (hours)	52	52	36	72	60	36	102	51	0 (18 Economies*)
Cost to export: Border compliance (USD)	201	201	749	420	220	168	505	1400	0 (18 Economies*)
Time to export: Documentary compliance (hours)	168	168	7	24	24	26	168	24	1 (25 Economies*)
Cost to export: Documentary compliance (USD)	70	70	264	310	20	60	200	180	0 (19 Economies*)
Time to import: Border compliance (hours)	26	26	39	96	84	56	84	84	0 (25 Economies*)

Indicator	Tonga DB2017	Tonga DB2016	Australia DB2017	Kiribati DB2017	Marshall Islands DB2017	Micronesia, Fed. Sts. DB2017	Palau DB2017	Samoa DB2017	Best performer globally DB2017
Cost to import: Border compliance (USD)	330	330	525	685	220	180	605	900	0 (28 Economies*)
Time to import: Documentary compliance (hours)	72	72	4	48	60	35	168	25	1 (29 Economies*)
Cost to import: Documentary compliance (USD)	148	148	100	120	43	80	143	230	0 (30 Economies*)
Enforcing Contracts (Rank)	92	91	3	118	99	183	126	67	1 (Korea, Rep.)
Enforcing Contracts (DTF Score)	57.32	57.32	79.72	53.39	55.93	29.39	52.21	60.44	84.15 (Korea, Rep.)
Time (days)	350.0	350.0	395.0	660.0	616.0	885.0	810.0	455.0	164.0 (Singapore)
Cost (% of claim)	30.5	30.5	21.8	25.8	32.1	66.0	35.3	24.4	9.0 (Iceland)
Quality of judicial processes index (0-18)	4.5	4.5	15.5	6.0	8.0	4.5	9.5	6.5	15.5 (Australia)
Resolving Insolvency (Rank)	132	131	21	169	167	119	166	134	1 (Finland)
Resolving Insolvency (DTF Score)	33.82	33.60	78.73	0.00	9.19	37.65	16.38	33.33	93.89 (Finland)
Recovery rate (cents on the dollar)	28.0	27.6	82.4	0.0	17.1	3.2	30.4	18.4	92.9 (Norway)
Time (years)	2.7	2.7	1.0	no practice	2.0	5.3	2.0	2.0	0.4 (22 Economies*)
Cost (% of estate)	22.0	22.0	8.0	no practice	38.0	38.0	22.5	38.0	1.0 (22 Economies*)
Strength of insolvency framework index (0-16)	6.0	6.0	11.0	0.0	0.0	11.5	0.0	7.5	15.0 (6 Economies*)

Source: Doing Business database.

Note: DB2016 rankings shown are not last year's published rankings but comparable rankings for DB2016 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 DB2017 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). If there is more than one type of limited liability company in the economy, the limited liability form most common among domestic firms is chosen. Information on the most common form is obtained from incorporation lawyers or the statistical office.
- Operates in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- The size of the entire office space is approximately 929 square meters (10,000 square feet).

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)

Obtaining approval from spouse to start a business, to leave the home to register the company or open a bank account.

Obtaining any gender specific document for company registration and operation, national identification card or opening a bank account.

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)

- Is 100% domestically owned and has five owners, none of whom is a legal entity.
- Has start-up capital of 10 times income per capita
- Performs general industrial or commercial activities, such as the production or sale to the public of products or services. The business does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes.
- Leases the commercial plant or offices and is not a proprietor of real estate.
- The amount of the annual lease for the office space is equivalent to 1 times income per capita.
- Does not qualify for investment incentives or any special benefits.
- Has at least 10 and up to 50 employees one month after the commencement of operations, all of them domestic nationals.
- Has a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long

The owners:

- Have reached the legal age of majority and are capable of making decisions as an adult. If there is no legal age of majority, they are assumed to be 30 years old.
- Are sane, competent, in good health and have no criminal record.
- Are married, the marriage is monogamous and registered with the authorities.
- Where the answer differs according to the legal system applicable to the woman or man in question (as may be the case in economies where there is legal plurality), the answer used will be the one that applies to the majority of the population.

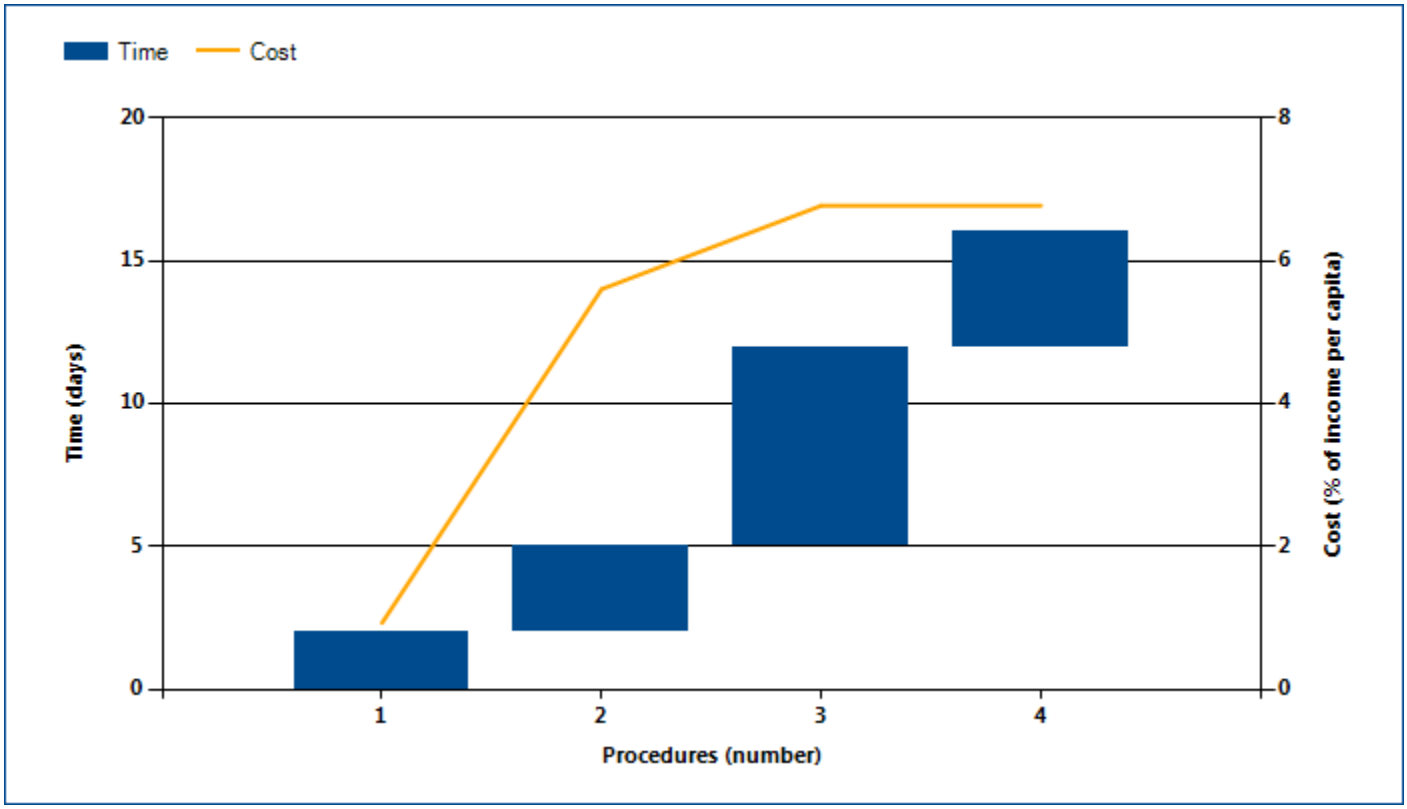
STARTING A BUSINESS

Where does the economy stand today?

What does it take to start a business in Tonga? According to data collected by *Doing Business*, starting a business there requires 4.0 procedures , takes 16.0 days, costs 6.8% of income per capita for men, and requires 4.0 procedures , takes 16.0 days, costs 6.8% of income per capita for women. A requirement of paid-in minimum capital of 0.0% of income per capita (figure 2.1) is legally mandatory for both men and women. 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 Tonga

Paid-in minimum capital (% of income per capita): 0.0



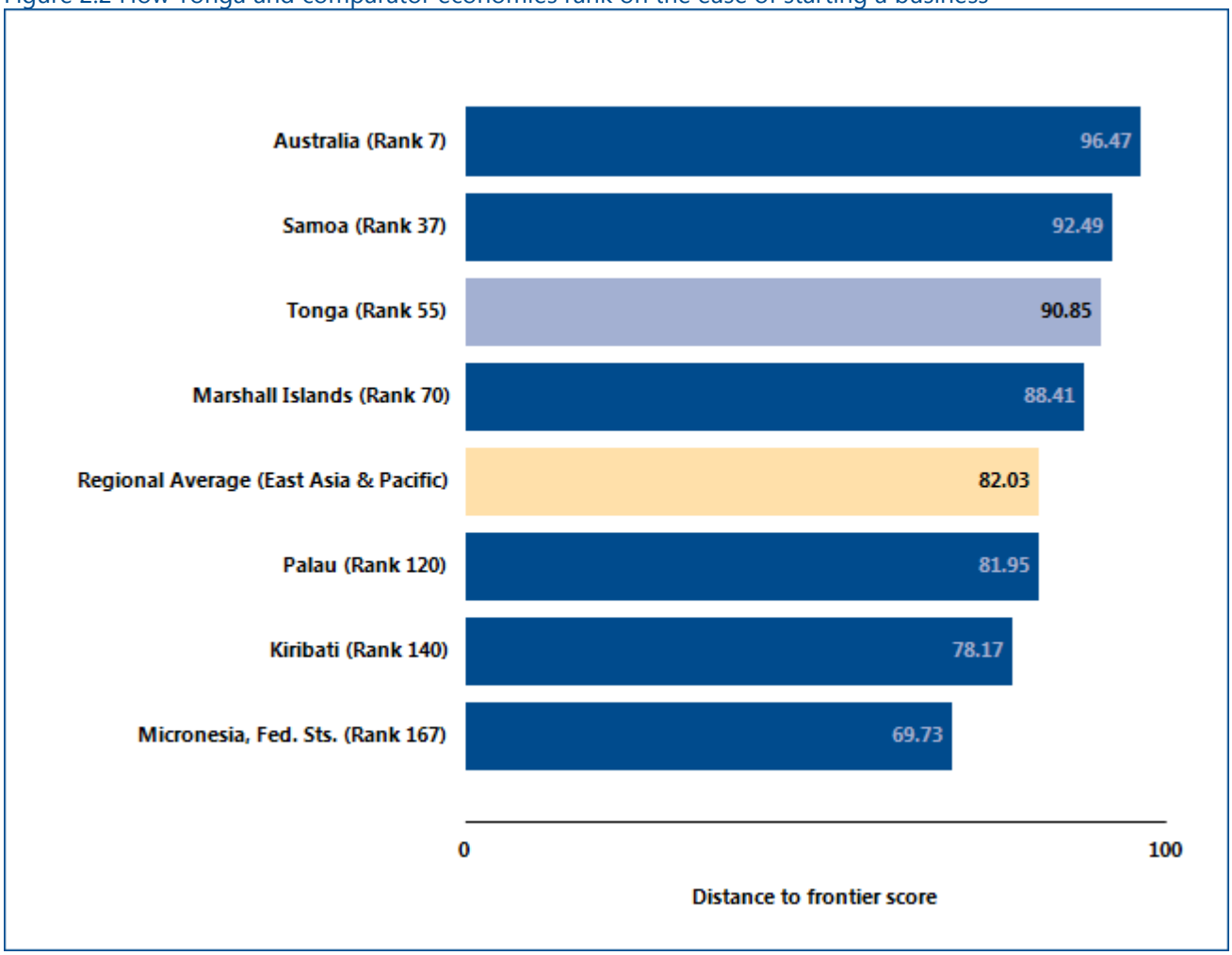
Source: Doing Business database.

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. Procedures in light blue for married women only.

STARTING A BUSINESS

Globally, Tonga stands at 55 in the ranking of 190 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 Tonga to start a business.

Figure 2.2 How Tonga 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 Tonga (table 2.1)?

Table 2.1 How has Tonga made starting a business easier—or not?
By *Doing Business* report year from DB2011 to DB2017

DB year	Reform
DB2012	Tonga made starting a business easier by implementing an electronic system at the registry, which reduced the time required for verification of the uniqueness of the company name and for registration of the company. The costs for the name search, company registration and business license increased, however.

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 Tonga 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: **Private limited company**

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

City: **Nukualofa**

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

Table 2.2 Summary of time, cost and procedures for starting a business in Tonga

No.	Procedure	Time to complete	Cost to complete
1	**Check the uniqueness of the proposed company name and reserve a name** Section 24 of Companies Act 1995 prohibits the Registrar of Companies from registering a company name unless it has been reserved. According to common practice, founders submit the name registration together with the company incorporation application; however, if the name is rejected, the company would resubmit. Company names with the words "Tonga," "Tongan," or "Royal" are subject to prior written approval by the Privy Council. A name reservation is valid for 30 working days from the date stated in the reservation notice. *Agency: Registrar of Companies*	2 days	TOP 80
2	**Register the company with the Companies Office and obtain a certificate of incorporation** To incorporate a company, founders must file the following: a) Application for incorporation (Form 1) b) Application for name reservation (Form 2) c) Company constitution (Only if company is not using the standard constitution stipulated under the Act) d) Prescribed fees Forms are available online on our website www.businessregistries.gov.to and also at the Business Registries & Intellectual Property Office reporting to the Ministry of Commerce, Consumer, Innovation and Labor.	3 days	TOP 400

No.	Procedure	Time to complete	Cost to complete
	Agency: Companies Office		
3	**Obtain a business license from Ministry of Labor, Commerce, and Industry** All business must obtain a business or trading license, but prior requirements vary from industry to industry. Prior requirements are the same for all industries, except fishing, liquor and tourism. The Business Licenses (Amendment) Act 2012 came into effect on December 17, 2012. According to this act: 1) companies can use one single business license to cover multiple business activities; 3) the duration of the license perpetual and companies no longer needs to renew the business license annually; 4) companies are not required to submit the ancillary licenses and other paperwork to obtain the business license. Renewal of business license is not required but registered businesses are required to file a notice of continued business activity every year. *Agency: Ministry of Labor, Commerce, and Industry*	7 days	TOP 100
4	**Register consumption tax and income tax with the Internal Revenue Commission** A locally incorporated company must register the consumption tax with the Taxation Department. The consumption tax number will be the same as the income tax number. Registration for Consumption Tax (the equivalent of Australian or New Zealand Goods and services tax (GST) is voluntary if turnover is less than TOP 100,000 a year; otherwise, registration is compulsory. Taxpayers can now lodge and pay Consumption Tax, PAYE and non-resident airline withholding tax online. Taxpayers also have the possibility (once registered) to view his/her tax accounts and information online. *Agency: Internal Revenue Commission*	4 days on average	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.
Procedures in light blue for married women only.

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, the building quality control index evaluates 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.
- Has 60 builders and other employees, all of them nationals with the technical expertise and

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—though procedures that can be fully completed online are an exception to this rule

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)

professional experience necessary to obtain construction permits and approvals.

- Has a licensed architect and a licensed engineer, both 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.

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.
- Is valued at 50 times income per capita.
- 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:

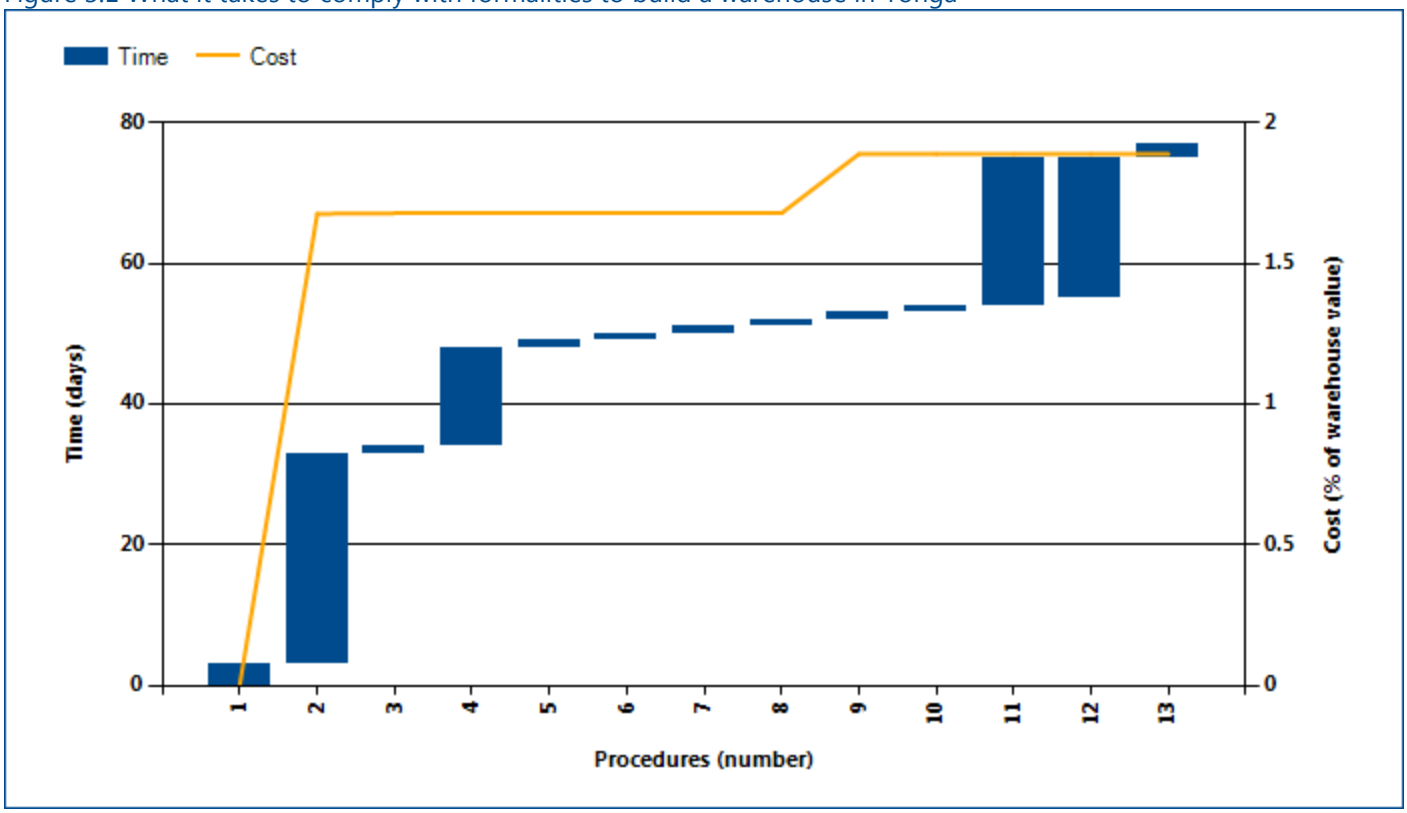
- Will be 150 meters (492 feet) from the existing water source and sewer tap. If there is no water delivery infrastructure in the economy, a borehole will be dug. If there is no sewerage infrastructure, a septic tank in the smallest size available will be installed or built.
- Will not require water 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 Tonga? According to data collected by *Doing Business*, dealing with construction permits there requires 13.0 procedures, takes 77.0 days and costs 1.9% 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 Tonga



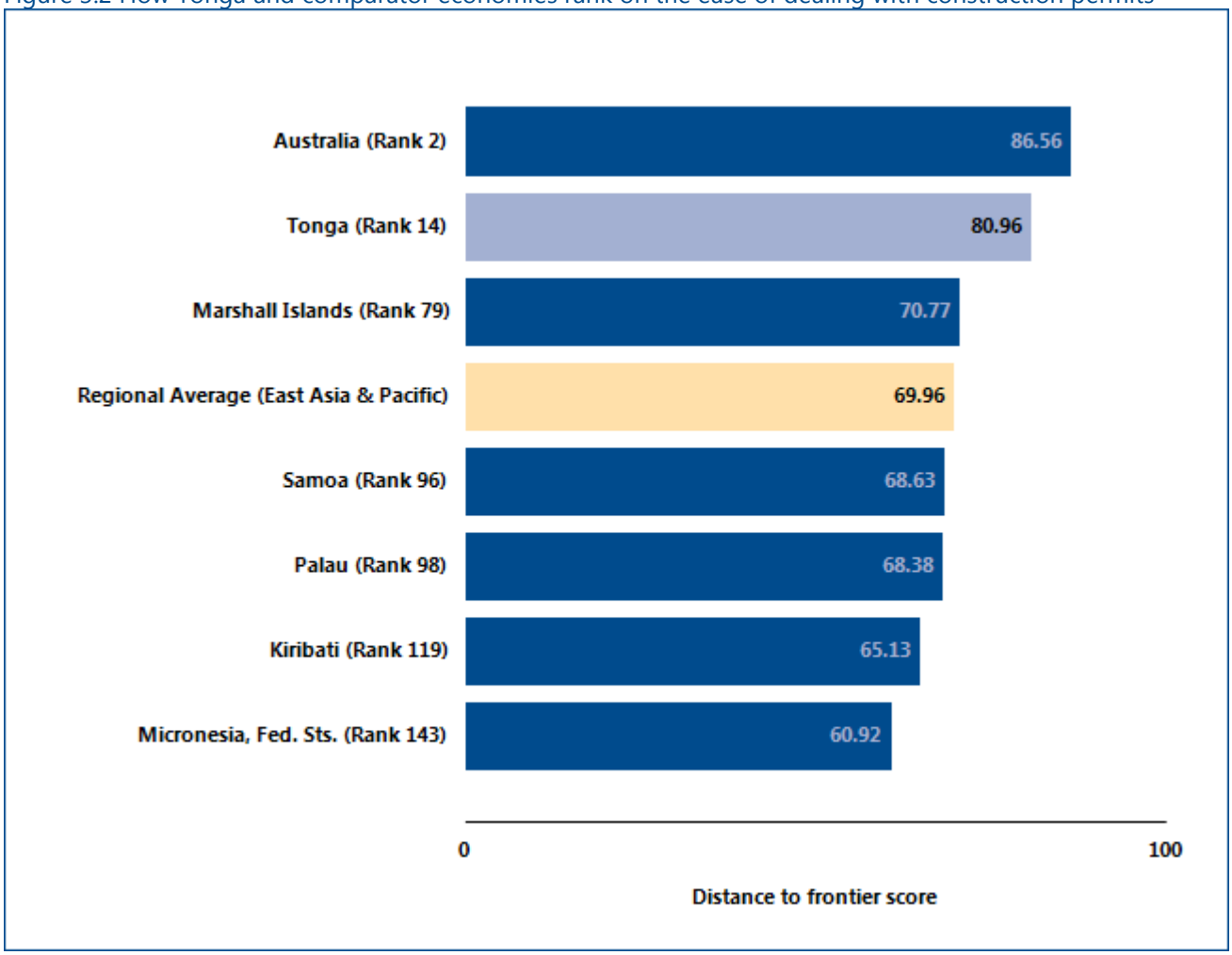
Source: Doing Business database.
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business*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

.

DEALING WITH CONSTRUCTION PERMITS

Globally, Tonga stands at 14 in the ranking of 190 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 Tonga to legally build a warehouse.

Figure 3.2 How Tonga and comparator economies rank on the ease of dealing with construction permits



Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

Smart regulation ensures that standards are met while making compliance easy and accessible to all. Coherent and transparent rules, efficient processes and adequate allocation of resources are especially important in sectors where safety is at stake. Construction is one of them. In an effort to ensure building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. What construction permitting reforms has *Doing Business* recorded in Tonga (table 3.1)?

Table 3.1 How has Tonga made dealing with construction permits easier—or not?
By *Doing Business* report year from DB2011 to DB2017

DB year	Reform
DB2017	Tonga made dealing with construction permits more complex by introducing two new procedures.

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.

DEALING WITH CONSTRUCTION PERMITS

What are the details?

The indicators reported here for Tonga 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 :	**TOP 428,190**
City :	**Nukualofa**

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 Tonga

No.	Procedure	Time to complete	Cost to complete
1	**Request and obtain official copy of site plan from the Ministry of Land** Depending on the location of the land, obtaining a site plan may take as long as one year (if the project is outside Nuku'alofa). *Agency: Ministry of Land*	3 days	TOP 16
2	**Request and obtain building permit** A new building code has been partially introduced. Since August 2005, in practice, BuildCo submits all plans for approval to the Ministry of Infrastructure. BuildCo must submit 3 sets of drawing (the specifications are provided in the law). One copy will be distributed to each department at the same time for approval: 1. Fire Services Department -- checking for safety regulations 2. With the implementation of the Environmental Impact Assessment 2010 – BuildCo must submit Form 1 for Assessment. 3. Ministry of Health -- checking the septic tank, whether it is the Ministry of Infrastructure's standard septic tank. Normally all architects have the standard specifications and the check list. Once approved by the various departments, the plans are sent back to the Ministry of Infrastructure for final approval. The time it takes to obtain the approval depends on the persistence of BuildCo in following up. The official time limit is 21 working days (under Article 11 -- Issue of a Building Permit -- Building Control and Standards Regulations 2005) or 30 calendar days: • The Ministry of Infrastructure has 10 working days to verify the sets of plans and forward all the documents to the relevant departments. • All 3 departments have 10 working days to provide their response. • The Ministry of Infrastructure has 1 working day to issue the permit.	30 days	TOP 7,163

No.	Procedure	Time to complete	Cost to complete
	Agency: Ministry of Infrastructure		
3	**Pay registration fees for the environmental assessment Form 1 at the Lands Office** Once the building permit is obtained, BuildCo must pay for Form 1 for the Environmental Assessment at the Lands Office. The building permit and Form 1 must be submitted at time of payment. The officer at the Lands office will verify that the building permit has been issued and that Form 1 was properly assessed. *Agency: Lands Office*	1 day	TOP 10
4	**Submit Form1 and the Building permit to the Environmental Unit** According to Schedule 1 of the Environmental Impact Assessment Regulations 2010, the environmental unit will assess if the warehouse will require a full Environmental Impact Assessment or a simple assessment. If no EIA is not needed, the Environmental Unit will issue Form 2 so that Build Co can proceed with the construction. *Agency: Ministry of Lands, Environment, Climate Change and Natural Resources*	14 days	no charge
5	**Request and receive foundation inspection from the Ministry of Infrastructure** According to Article 19 of the Building Control and Standards Act 2002- Sectioni 19 - BuildCo must inform the Ministry of Infrastructure of the various stages completed and request an inspections (foundations, walls, pouring of concrete, etc). In practice, there may be about three inspections or none. The inspections must be requested but this can be done over the telephone. *Agency: Ministry of Infrastructure*	1 day	no charge
6	**Request and receive inspection prior to pouring of concrete** BuildCo must request the inspection 36 hours prior to the date (under Article 19 of the Building Control and Standards Regulations 2005). This can be done by phone, email or in person. *Agency: Ministry of Infrastructure*	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
7	**Request and receive inspection of framing material** *Agency: Ministry of Infrastructure*	1 day	no charge
8	**Request and receive inspection of plumbing and sanitary work** *Agency: Ministry of Infrastructure*	1 day	no charge
* 9	**Request water connection** In practice, unless water supply is already available at the site, many companies use rainwater. *Agency: Tonga Water Board*	1 day	TOP 900
10	**Receive site inspection for water connection** *Agency: Tonga Water Board*	1 day	no charge
11	**Obtain water connection** *Agency: Tonga Water Board*	21 days	no charge
* 12	**Request and receive final inspection** According to Article 22 of the Building Control and Standards Act 2002, the builder will inform the Building Comptroller of the MOW either by phone, email or in person. A date for the inspection is proposed by the builder. The inspector will come on the premises and do the final inspection. *Agency: Ministry of Infrastructure*	5 days	no charge

No.	Procedure	Time to complete	Cost to complete
13	**Receive certificate of completion** Two days after the final inspection, the Ministry of Infrastructure will issue the certificate of completion. *Agency: Ministry of Infrastructure*	2 days	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 Tonga

	Answer	Score
Building quality control index (0-15)		12.0
Quality of building regulations index (0-2)		2.0
How accessible are building laws and regulations in your economy? (0-1)	Available online; Free of charge.	1.0
Which requirements for obtaining a building permit are clearly specified in the building regulations or on 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)		1.0
Which third-party entities are required by law to verify that the building plans are in compliance with existing building regulations? (0-1)	Licensed architect; Licensed engineer.	1.0
Quality control during construction index (0-3)		2.0
What types of inspections (if any) are required by law to be carried out during construction? (0-2)	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)		3.0
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.	2.0
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)		1.0
Which parties (if any) are held liable by law for structural flaws or problems in the building once it is in use (Latent Defect Liability or Decennial Liability)? (0-1)	Architect or engineer; Professional in charge of the supervision.	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 (Latent Defect Liability Insurance or Decennial Insurance)? (0-1)	No party is required by law to obtain insurance .	0.0

	Answer	Score
Professional certifications index (0-4)		3.0
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.	2.0
What are the qualification requirements for the professional who supervises the construction on the ground? (0-2)	University degree in engineering, construction or construction management; Being a registered architect or engineer.	1.0

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, *Doing Business* also 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 connection with a subscribed capacity of 140-kilo-volt-ampere (kVA) with a power factor of 1, when 1 kVA = 1 kilowatt (kW).
- Has a length of 150 meters. The connection is to either the low- or medium-voltage distribution network and is 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.
- Does not require work to install the internal wiring of the warehouse. This has already been completed up to and including the customer's service panel or switchboard and the meter base.

Assumptions about the monthly consumption

- It is assumed that the warehouse operates 30 days a month from 9:00 a.m. to 5:00 p.m. (8 hours a day), with equipment utilized at 80% of capacity on average and that there are no electricity cuts (assumed for simplicity reasons).
- The monthly energy consumption is 26,880 kilowatt-hours (kWh); hourly consumption is 112 kWh.
- 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. Although March has 31 days, for calculation purposes only 30 days are used.

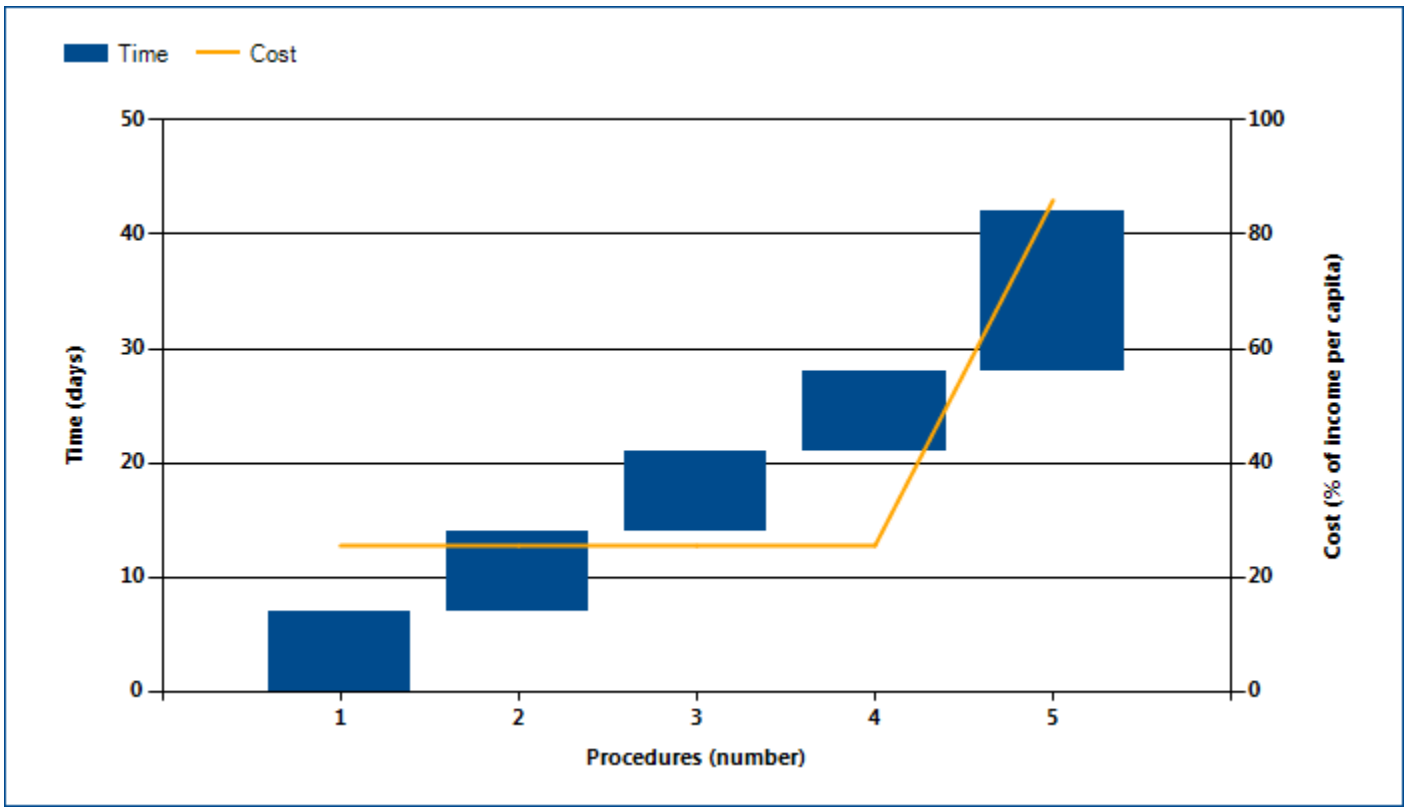
GETTING ELECTRICITY

Where does the economy stand today?

What does it take to obtain a new electricity connection in Tonga? According to data collected by *Doing Business,* getting electricity there requires 5.0 procedures, takes 42.0 days and costs 85.9% 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 Tonga

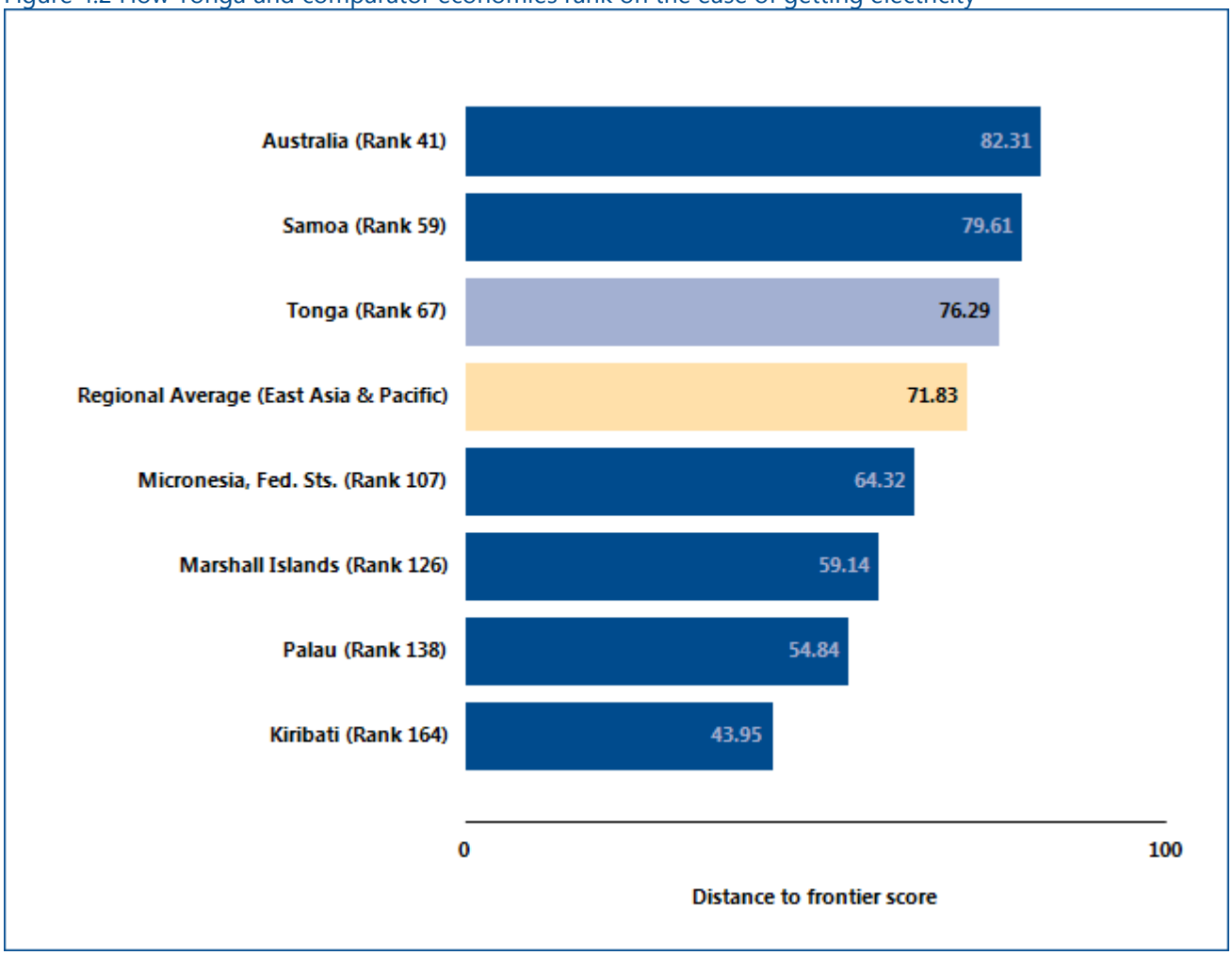


Source: Doing Business database.
Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (http://www.doingbusiness.org). For details on the procedures reflected here,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

GETTING ELECTRICITY

Globally, Tonga stands at 67 in the ranking of 190 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 Tonga to connect a warehouse to electricity.

Figure 4.2 How Tonga 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 Tonga (table 4.1)?

Table 4.1 How has Tonga made getting electricity easier—or not?
By *Doing Business* report year from DB2011 to DB2017

DB year	Reform
DB2012	Tonga made getting electricity faster by implementing a time limit for the safety inspection.

Source: Doing Business database.

GETTING ELECTRICITY
What are the details?

The indicators reported here for Tonga 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:	**Tonga Power Ltd.**
Price of electricity (US cents per kWh):	**33.2**
City:	**Nukualofa**

*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 Tonga

No.	Procedure	Time to complete	Cost to complete
1	**Apply for and receive electrical permit** The Electrical permit is obtained before internal wiring has started and is not a part of the Building Permit. It is a requirement while submitting application with the utility. Only licensed electricians/contractors can apply for the permit. *Agency: Electricity Commission*	7 calendar days	TOP 2,185
2	**Submit application to Tongapower and await site inspection** Customer submits necessary documentation along with application - forms of ID, land details, land lease details, drivers License, passport, contact address, phone details, other power accounts held. Also submit Electrical Permit obtained from Electricity Commission . This permit is applied for before starting internal wiring. An inspection is conducted by the EC. *Agency: Tongapower*	7 calendar days	TOP 0

No.	Procedure	Time to complete	Cost to complete
3	**Receive site inspection from Tongapower and await estimate** Customer is normally required to be present during site estimate so that the engineer can, if needed, seek any clarifications about the site. The engineer from Tongapower ascertains the location, closest point of supply, and meter location. *Agency: Tongapower*	7 calendar days	TOP 0
4	**File certificate of completion for internal wiring and receive inspection and certificate** This inspection is conducted after all wiring is done. The contractor submits Form 4, Certificate of Completion of Installation, attesting that all wiring has been completed. The Inspector after conducting inspection, signs off on this form. *Agency: Electricity Commission*	7 calendar days	TOP 0
5	**Submit compliance certificate to Tongapower and receive external connection, meter installation and electricity flow** Cost breakup includes materials - simple connection, 3 phase CT meter, labor, meter insurance, meter installation, transport. Meter insurance is reimbursed upon disconnection of service. Meter insurance is paid as a bond and reimbursed at termination of contract. No interest is paid on this bond. *Agency: Tongapower*	14 calendar days	TOP 5,175

* Takes place simultaneously with previous 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 Tonga

	Answer	Score
Reliability of supply and transparency of tariff index (0-8)		**4.0**
Total duration and frequency of outages per customer a year (0-3)		**0.0**
System average interruption duration index (SAIDI)	18.75	
System average interruption frequency index (SAIFI)	14.73	
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)		**1.0**
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)		**0.0**
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)		**1.0**
Are effective tariffs available online?	Yes	
Link to the website, if available online	http://www.tonga	

	Answer	Score
	power.to/NewsRoom/tariff_decrease_march2015.aspx	
Are customers notified of a change in tariff ahead of the billing cycle?	Yes	

	Answer
Price of electricity (US cents per kWh)	33.2

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, *Doing Business* also measures 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 in the economy's largest business city.
- 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
- 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—though procedures that can be fully completed online are an exception to this rule
- 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)

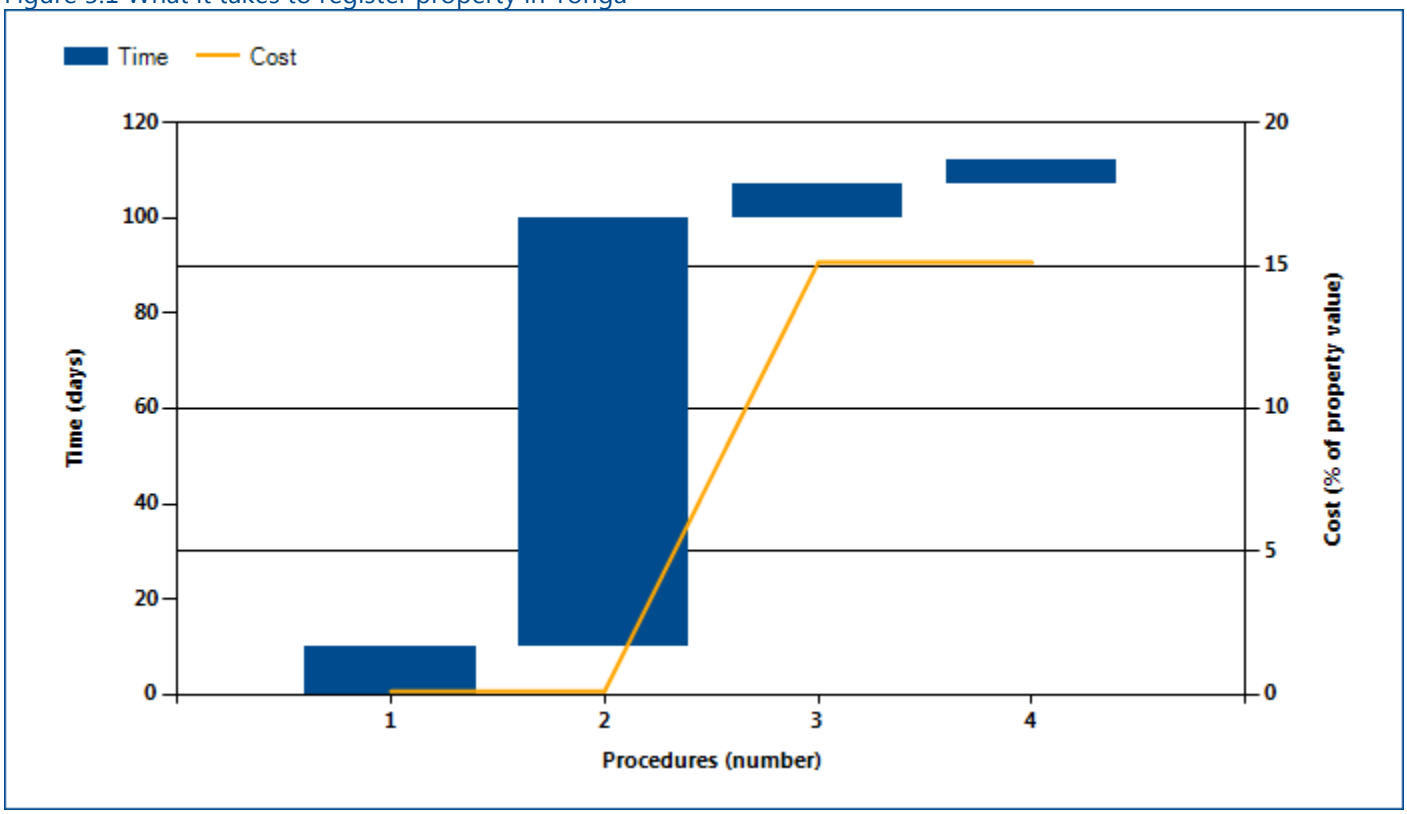
REGISTERING PROPERTY

Where does the economy stand today?

What does it take to complete a property transfer in Tonga? According to data collected by *Doing Business*, registering property there requires 4.0 procedures, takes 112.0 days and costs 15.1% of the property value (figure 5.1). The score on the quality of land administration index is 17.0

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 Tonga

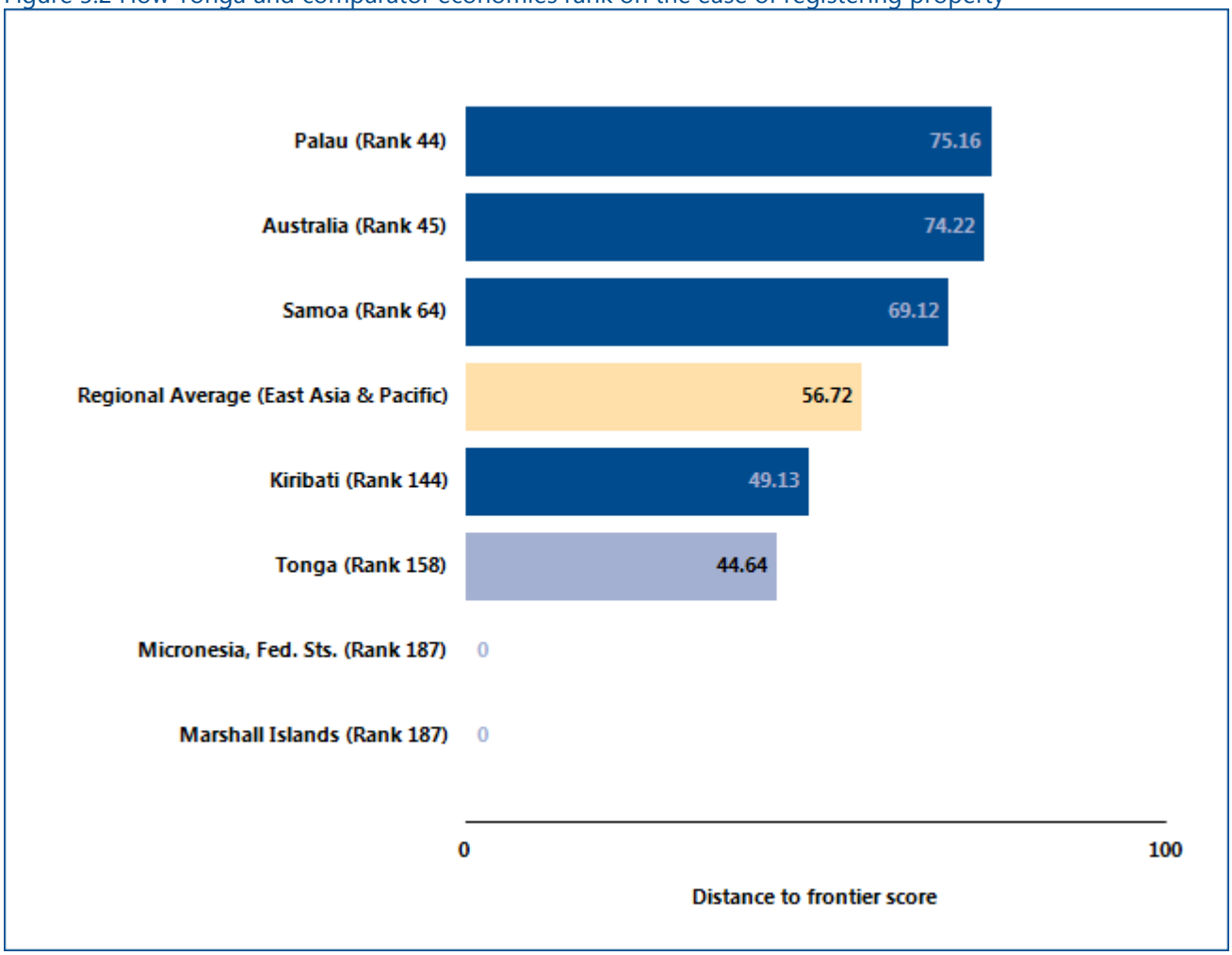


Source: Doing Business database.
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the registering property indicators, see the *Doing Business* website (http://www.doingbusiness.org).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

REGISTERING PROPERTY

Globally, Tonga stands at 158 in the ranking of 190 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 Tonga to transfer property.

Figure 5.2 How Tonga 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 Tonga (table 5.1)?

Table 5.1 How has Tonga made registering property easier—or not?
By *Doing Business* report year from DB2011 to DB2017

DB year	Reform
DB2012	Tonga made transferring property more costly.

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:	**TOP 428,190**
City:	**Nukualofa**

Table 5.2 Summary of time, cost and procedures for registering property in Tonga

No.	Procedure	Time to complete	Cost to complete
1	**The lawyer prepares the transfer deed and application letter** The lawyer prepares the transfer deed and the application to transfer the lease. The use of a lawyer is not legally required but used in practice. Lawyer fees are not regulated, but there is a non compulsory table for lawyer fees issued by the Chief Justice.Tongan land law is extremely complex. Buildings do not necessarily belong to the land and there are significant conflicts and disputes involving identical material facts. *Agency: Lawyer*	10 days	About TOP 500
2	**An application to transfer a lease is submitted to the Hon. Minister of Lands** A letter of application to transfer the lease, signed by both parties, along with the original deed of transfer mentioning the amount of the transfer and the original Deed of lease are submitted at the same to the Ministry of Land. • The Hon. Minister of Lands forwards the application to the Land Registration Section (LRS) for title search and due diligence. Once the title search and due Diligence are completed and meet the legal requirement, LRS then submits to the Hon. Minister of Lands with a brief on the outcome of the title search and due diligence with the recommendation to approve, subject to Cabinet's consent to the lease transfer. • LRS submits to the Cabinet with the recommendation that Cabinet grants consent to lease transfer • And then the Cabinet will approve the submission. • Once all these processes are completed LRS prepare the Indenture of Transfer that must be signed by the Transferor and the Transferee	90 days	no cost

No.	Procedure	Time to complete	Cost to complete
	Agency: Ministry of Lands, Surveys and Natural Resources		
3	**The parties sign the Indenture of the Transfer** All lease transfers have to be approved by the Cabinet, which can take over 3 months on average. Cabinet meets once a week. Once approved, the Transferor and the Transferee sign the Indenture of Transfer and pays the Consumption tax of 15% of the value of the sale. The Indenture of Transfer is sent to the Hon. Minister of Land for his signature. *Agency: Ministry of Lands, Surveys and Natural Resources*	7 days	15% of property value (Consumption tax) + 14 TOP
4	**The signature of the new Lessee at the office upon receiving the Deed of Lease** The Minister then signs and registers the lease. Once the lease is registered, the new lessee will receive an updated lease under his name. One original copy is kept at the Ministry. The rent for the lease can be revised every 5 years. The land registry is managed on paper. *Agency: Ministry of Lands, Surveys and Natural Resources*	5 days	no cost

* 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, land dispute resolution and equal access to property rights 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 2015 and June 2016, 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 Tonga

	Answer	Score
Quality of the land administration index (0-30)		17.0
Reliability of infrastructure index (0-8)		2.0
What is the institution in charge of immovable property registration?	Ministry of Lands, Surveys, Natural Resources and Environment.	
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)?	Paper	0.0
Is there an electronic database for checking for encumbrances (liens, mortgages, restrictions and the like)?	No	0.0
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/Scanned	1.0
Is there an electronic database for recording boundaries, checking plans and providing cadastral information (geographic information system)?	No	0.0
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?	Yes	1.0
Transparency of information index (0–6)		3.0
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
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

	Answer	Score
Link for online access:	http://crownlaw.gov.to/cms/images/LEGISLATION/PRINCIPAL/1903/1903-0020/LandAct_1.pdf	
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://crownlaw.gov.to/cms/images/LEGISLATION/AMENDING/1991/1991-0018/LandAmendmentAct1991.pdf	
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?	No	0.0
Link for online access:		
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
Are there publicly available official statistics tracking the number of transactions at the immovable property registration agency?	No	0.0
Number of property transfers in the largest business city in 2015:		
Who is able to consult maps of land plots in the largest business city?	Anyone who pays the official fee	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://crownlaw.gov.to/cms/images/LEGISLATION/AMENDING/1991/1991-0018/LandAmendmentAct1991.pdf	
Does the cadastral or mapping agency commit to delivering an updated map within a specific time frame—and if so, how does it	No	0.0

	Answer	Score
communicate the service standard?		
Link for online access:		
Is there a specific and separate mechanism for filing complaints about a problem that occurred at the cadastral or mapping agency?	No	0.0
Geographic coverage index (0–8)		8.0
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)		6.0
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?	Yes	0.5
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?	Registrar.	
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?	Registrar.	
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?	Land court	
How long does it take on average to obtain a decision from the first-instance court for such a case (without appeal)?	Between 1 and 2 years	2.0

	Answer	Score
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 2015:		
Equal access to property rights index (-2–0)		-2.0
Do unmarried men and unmarried women have equal ownership rights to property?	No	-1.0
Do married men and married women have equal ownership rights to property?	No	-1.0

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 to view and consider a potential borrower's financial history (positive or negative) when assessing risk and they allow borrowers to establish a good credit history that will facilitate their 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 2017* report). These scenarios assume that the borrower:

Is a domestic 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.

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

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.

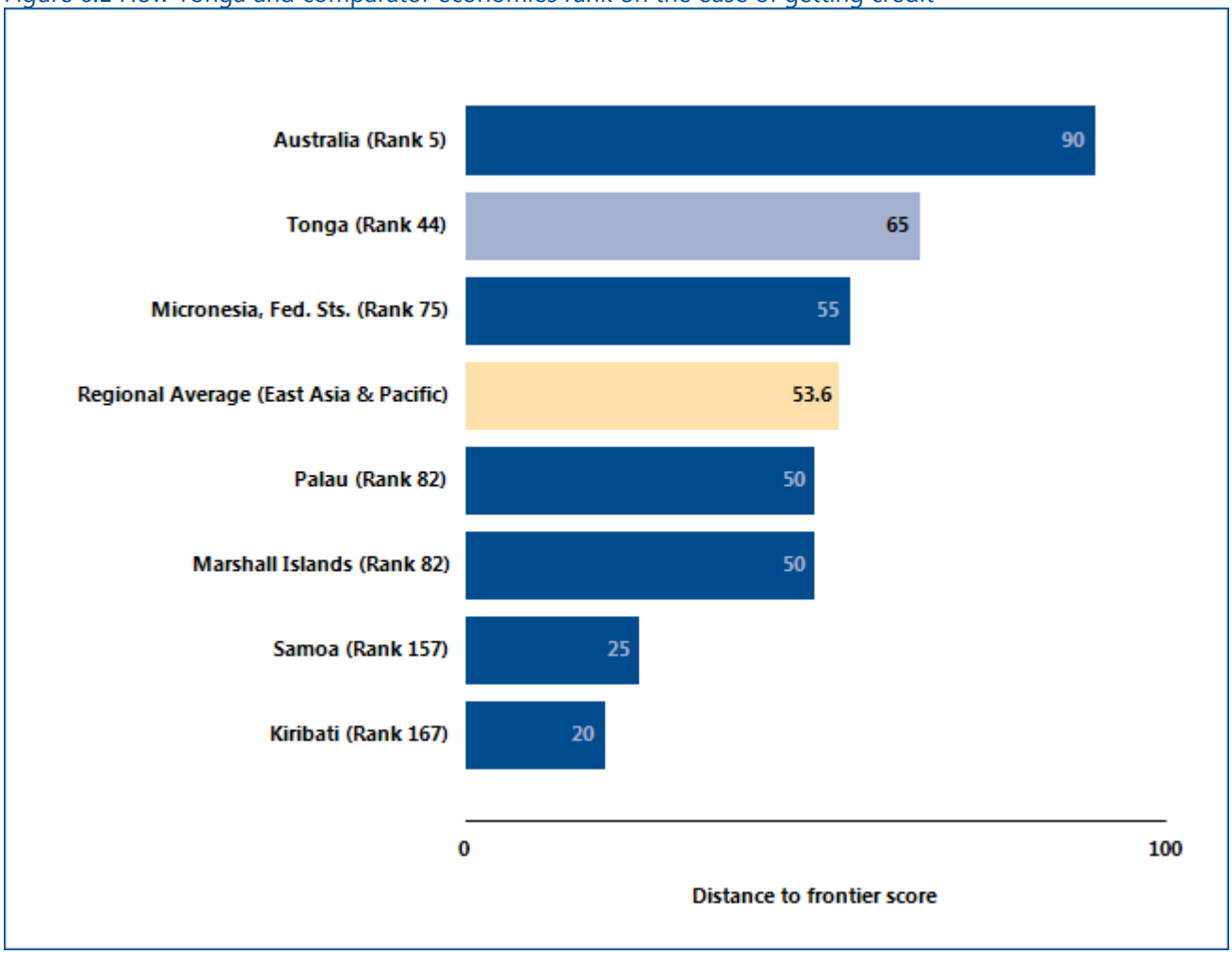
GETTING CREDIT

Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Tonga facilitate access to credit? The economy has a score of 3.0 on the depth of credit information index and a score of 10.0 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, Tonga stands at 44 in the ranking of 190 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 Tonga support lending and borrowing.

Figure 6.1 How Tonga and comparator economies rank on the ease of getting credit



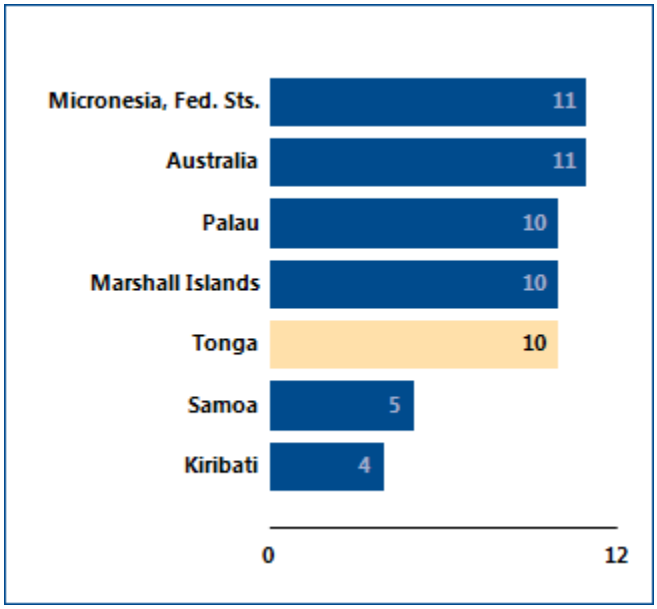
Source: Doing Business database.

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 Tonga 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?

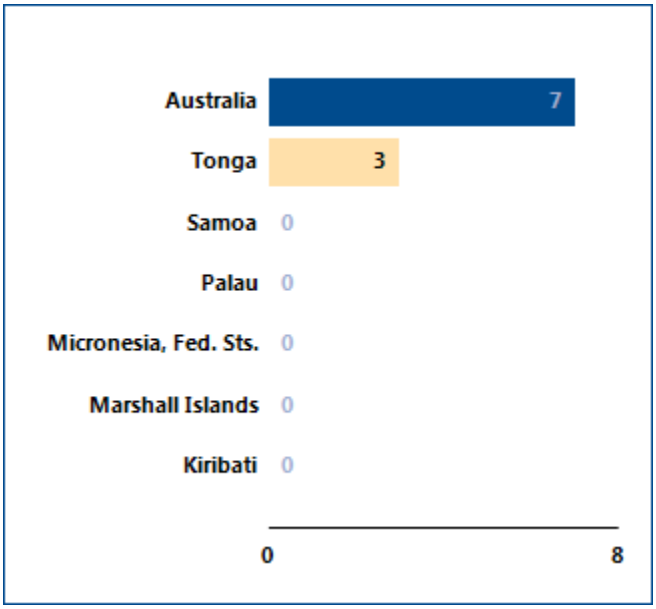
Economy scores on strength of legal rights index



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 Tonga (table 6.1)?

Table 6.1 How has Tonga made getting credit easier—or not?
By *Doing Business* report year from DB2011 to DB2017

DB year	Reform
DB2012	Tonga strengthened its secured transactions system by passing a new law that allows a general description of the obligation in the security agreement and gives secured creditors priority outside bankruptcy.
DB2014	Tonga improved access to credit information by establishing a private credit bureau.

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 Tonga 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: 10.0**
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?	1
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?	1
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?	1
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?	1
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?	1
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?	1
Does a notice-based collateral registry exist in which all functional equivalents can be registered?	1
Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party?	1
Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	1
Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated?	0
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?	0
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?	1

Depth of credit information index (0–8)	Credit bureau	Credit registry	Index score: 3.0
Are data on both firms and individuals distributed?	Yes	No	1
Are both positive and negative credit data distributed?	No	No	0
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 erase data on defaults as soon as they are repaid or distribute negative information more than 10 years after defaults are repaid receive a score of 0 for this component.)	No	No	0
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?	No	No	0
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?	No	No	0

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 individuals	9,761	0
Number of firms	747	0
Total	10,508	0
Total percentage of adult population	17.3	0.0

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. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that Buyer is 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.
- Has a supervisory board (applicable to economies with a two-tier board system) on which 60% of the shareholder-elected members have been appointed by Mr. James, who is Buyer's controlling shareholder and a member of Buyer's board of directors.
- Has not adopted any bylaws or articles of association that differ from default minimum standards and does not follow any nonmandatory codes, principles, recommendations or guidelines

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 minority investor protection index (0–10)

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

relating to corporate governance.

- Is a manufacturing company with its own distribution network.

The transaction involves the following details:

- Mr. James owns 60% of Buyer and elected two directors to Buyer's five-member board.
- Mr. James also owns 90% of Seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores.
- Mr. James proposes that Buyer purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food products, a proposal to which Buyer agrees. The price is equal to 10% of Buyer's assets and is higher than the market value.
- The proposed transaction is part of the company's ordinary course of business and is not outside the authority of the company.
- Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made (that is, the transaction is not fraudulent).
- The transaction causes damages to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

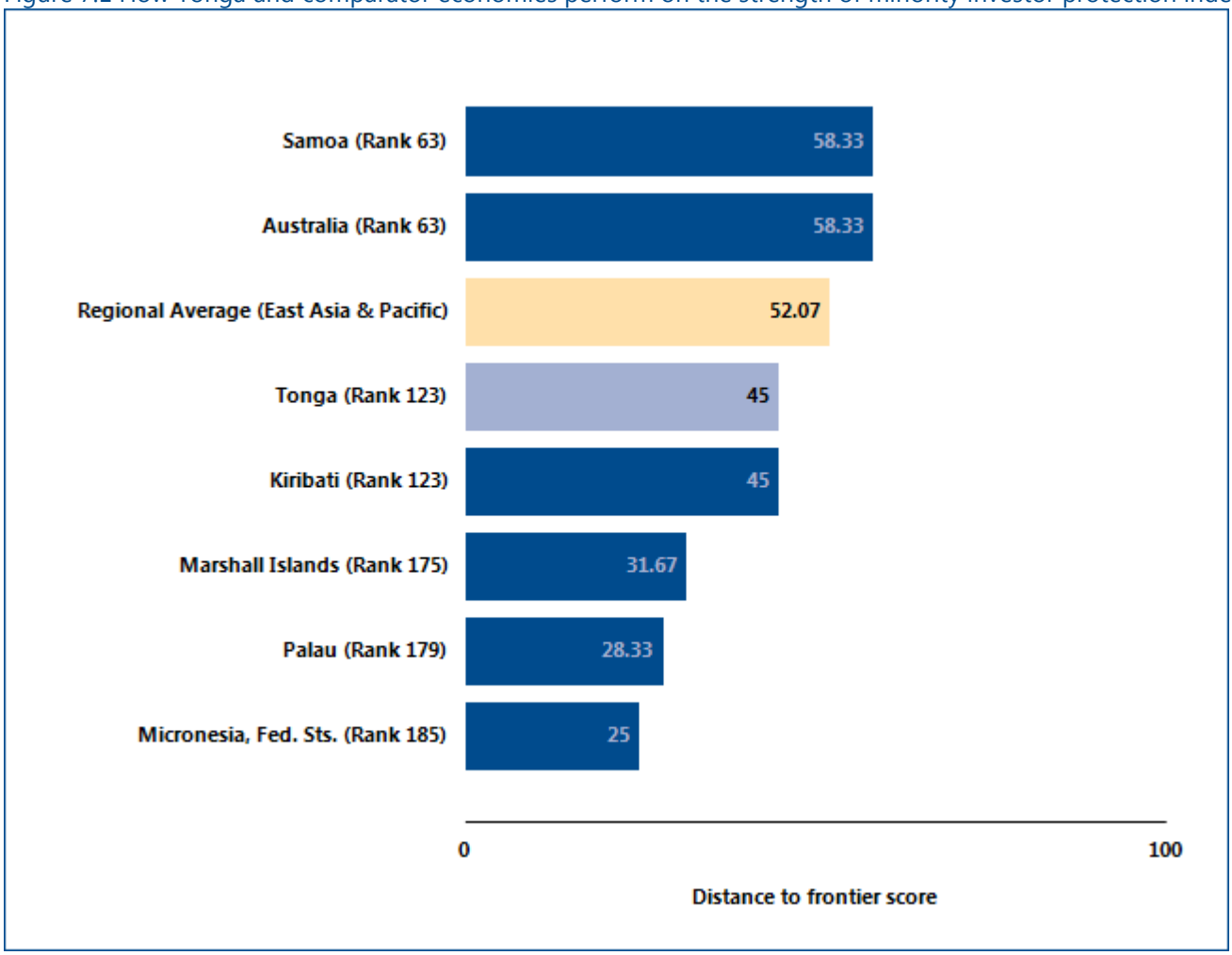
PROTECTING MINORITY INVESTORS

Where does the economy stand today?

How strong are minority investor protections against self-dealing in Tonga? The economy has a score of 4.5 on the strength of minority investor protection index, with a higher score indicating stronger protections.

Globally, Tonga stands at 123 in the ranking of 190 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 Tonga and comparator economies perform on the strength of minority investor protection index



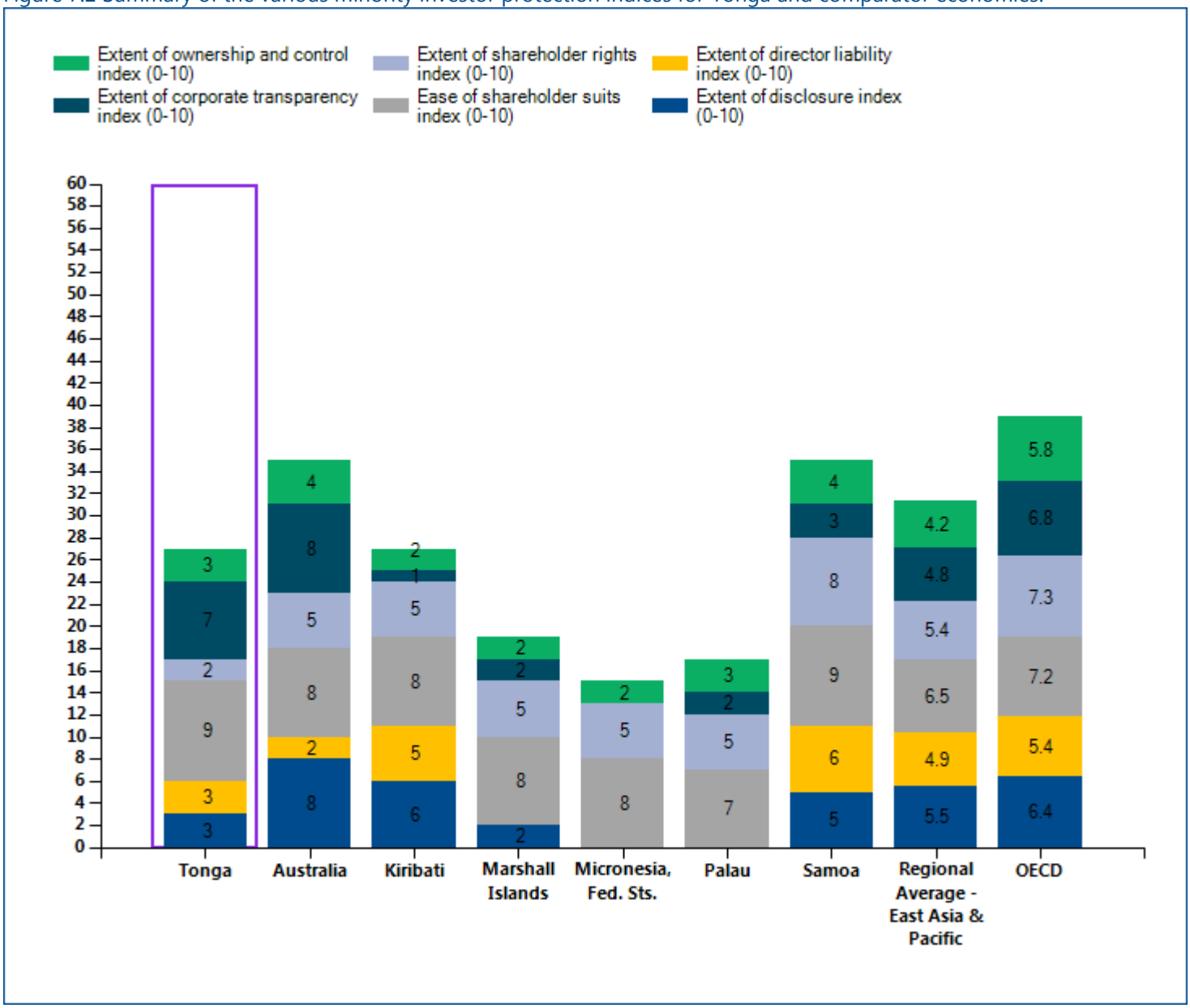
Source: Doing Business database.

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 Tonga.

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 Tonga and comparator economies.



Source: Doing Business database.

PROTECTING MINORITY INVESTORS

What are the details?

The protecting minority investors indicators reported here for Tonga 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 2017* report). The summary below shows the details underlying the scores for Tonga.

Table 7.2 Summary of scoring for the protecting minority investors indicators in Tonga

	Answer	Score
Strength of minority investor protection index (0-10)		4.5
Extent of conflict of interest regulation index (0-10)		5.0
Extent of disclosure index (0-10)		3.0
Which corporate body is legally sufficient to approve the Buyer-Seller transaction? (0-3)	Shareholders or board of directors including interested parties	1.0
Must Mr. James disclose his conflict of interest to the board of directors? (0-2)	Existence of a conflict without any specifics	1.0
Must Buyer disclose the transaction in published periodic filings (annual reports)? (0-2)	Disclosure on the transaction only	1.0
Must Buyer immediately disclose the transaction to the public and/or shareholders? (0-2)	No disclosure obligation	0.0
Must an external body review the terms of the transaction before it takes place? (0-1)	No	0.0
Extent of director liability index (0-10)		3.0
Can shareholders representing 10% of Buyer's share capital sue directly or derivatively for the damage the transaction caused to Buyer? (0-1)	Yes	1.0
Can shareholders hold the interested director liable for the damage the transaction caused to Buyer? (0-2)	Not liable	0.0
Can shareholders hold the other directors liable for the damage the transaction caused to Buyer (0-2)	Not liable	0.0
Must Mr. James pay damages for the harm caused to Buyer upon a successful claim by shareholders? (0-1)	No	0.0
Must Mr. James repay profits made from the transaction upon a successful claim by shareholders? (0-1)	No	0.0
Is Mr. James disqualifed or fined and imprisoned upon a successful claim by shareholders? (0-1)	No	0.0
Can a court void the transaction upon a successful claim by shareholders? (0-2)	Voidable if unfair or prejudicial	2.0
Ease of shareholder suits index (0-10)		9.0
Before suing can shareholders representing 10% of Buyer's share capital inspect the transaction documents? (0-1)	Yes	1.0
Can the plaintiff obtain any documents from the defendant and witnesses at trial? (0-3)	Any relevant document	3.0
Can the plaintiff request categories of documents from the	Yes	1.0

defendant without identifying specific ones? (0-1)		
Can the plaintiff directly question the defendant and witnesses at 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)		4.0
Extent of shareholder rights index (0-10)		2.0
Does the sale of 51% of Buyer's assets require shareholder approval?	No	0.0
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?	No	0.0
Do shareholders automatically receive preemption rights every time Buyer issues new shares?	No	0.0
Must shareholders approve the election and dismissal of the external auditor?	No	0.0
Are changes to the rights of a class of shares only possible if the holders of the affected shares approve?	No	0.0
Assuming that Buyer is a limited company, does the sale of 51% of its assets require member approval?	No	0.0
Assuming that Buyer is a limited company, can members representing 10% call for an extraordinary meeting of members?	Yes	1.0
Assuming that Buyer is a limited company, must all members consent to add a new member?	No	0.0
Assuming that Buyer is a limited company, must a member first offer to sell his interest to the existing members before selling to a non-member?	No	0.0
Extent of ownership and control index (0-10)		3.0
Is it forbidden to appoint the same individual as CEO and chair of the board of directors?	Yes	1.0
Must the board of directors include independent and nonexecutive board members?	Yes	1.0
Can shareholders remove members of the board of directors without cause before the end of their term?	No	0.0
Must the board of directors include a separate audit committee exclusively comprising board members?	No	0.0
Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer?	No	0.0
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?	No	0.0
Assuming that Buyer is a limited company, is there a management deadlock breaking mechanism?	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?	No	0.0
Assuming that Buyer is a limited company, must Buyer	No	0.0

distribute profits within a maximum period set by law after the declaration date?		
Extent of corporate transparency index (0-10)		7.0
Must Buyer disclose direct and indirect beneficial ownership stakes representing 5%?	No	0.0
Must Buyer disclose information about board members' other directorships as well as basic information on their primary employment?	No	0.0
Must Buyer disclose the compensation of individual managers?	No	0.0
Must a detailed notice of general meeting be sent 21 days before the meeting?	Yes	1.0
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 members meet at least once a year?	Yes	1.0
Assuming that Buyer is a limited company, can members representing 5% put items on the meeting agenda?	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 and dealing with postfiling processes. 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, time taken to comply with tax laws, time taken to comply with the requirements of postfiling processes and time waiting for these processes to be completed. 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 four component indicators – number of tax payments. time, total tax rate and postfiling index – with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax rate[1]. If both VAT (or GST) and corporate income tax apply, the postfiling index is the simple average of the distance to frontier scores for each of the four components: the time to comply with a VAT or GST refund, the time to obtain a VAT or GST refund, the time to comply with a corporate income tax audit and the time to complete a corporate income tax audit. If only VAT (or GST) or corporate income tax If onapplies, the postfiling index is the simple average of the scores for only the two components pertaining to the applicable tax. If neither VAT (or GST) nor corporate income tax

WHAT THE PAYING TAXES INDICATORS MEASURE

Tax payments for a manufacturing company in 2015 (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

Postfiling Index

- The time to comply with a VAT or GST refund
- The time to receive a VAT or GST refund
- The time to comply with a corporate income tax audit
- The time to complete a corporate income tax audit

[1] 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.

applies, the postfiling index is not included in the ranking of the ease of paying taxes.

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.

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, 2014.

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.

Assumptions about the VAT refund process:

- In June 2015, TaxpayerCo. makes a large capital purchase: one additional machine for manufacturing pots.
- The value of the machine is 65 times income per capita of the economy.
- Sales are equally spread per month (that is, 1,050 times income per capita divided by 12).
- Cost of goods sold are equally expensed per month (that is, 875 times income per capita divided by 12).
- The seller of the machinery is registered for VAT or general sales tax (GST).
- Excess input VAT incurred in June will be fully recovered after four consecutive months if the VAT or GST rate is the same for inputs, sales and the machine and the tax reporting period is every month.

Assumptions about the corporate income tax audit process:

- An error in the calculation of the income tax liability (for example, use of incorrect tax depreciation rates, or incorrectly treating an expense as tax deductible) leads to an incorrect income tax return and consequently an underpayment of corporate income tax.
- TaxpayerCo. discovered the error and voluntarily notified the tax authority of the error in the corporate income tax return.

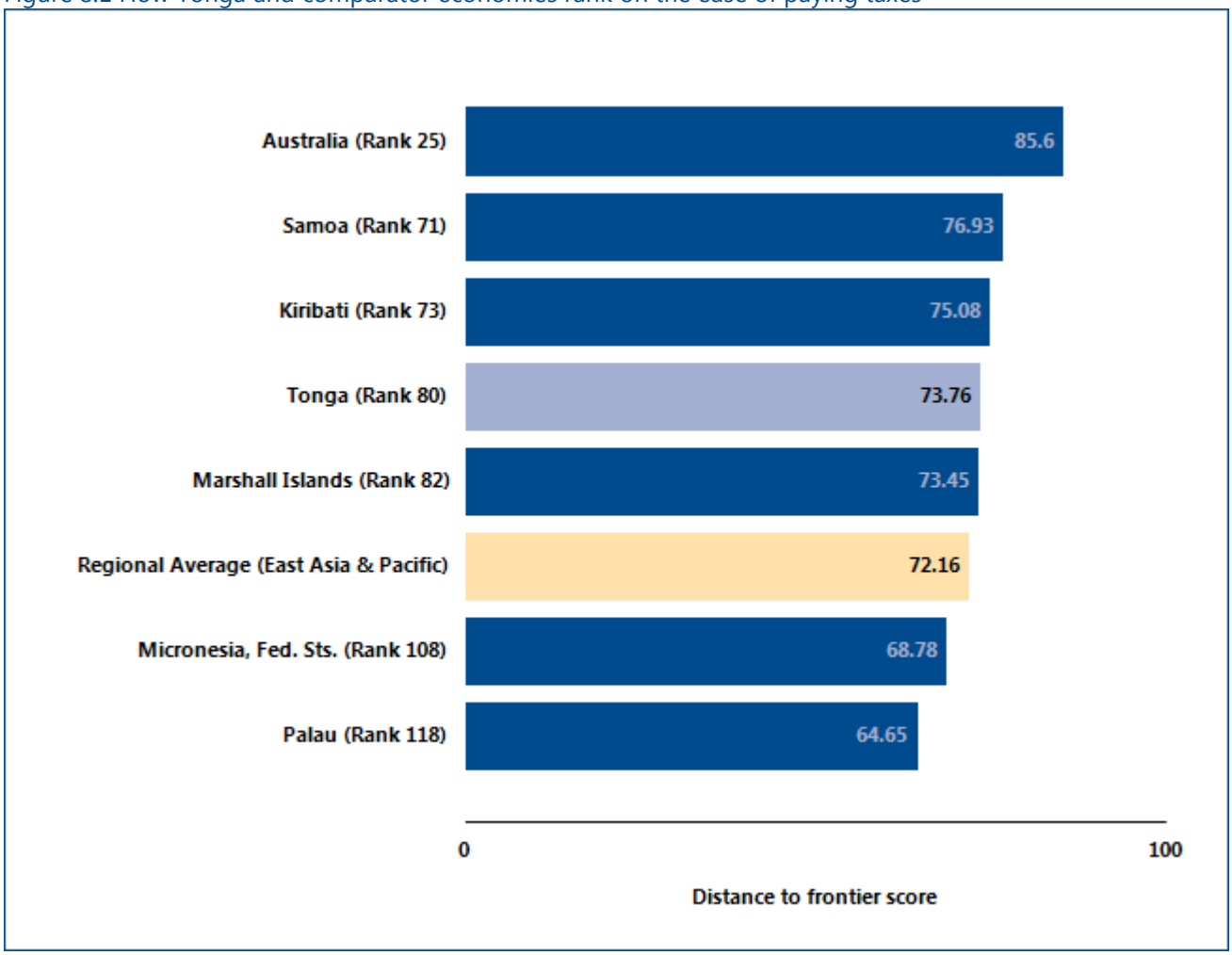
PAYING TAXES

Where does the economy stand today?

What is the administrative burden of complying with tax obligations and postfiling processes in Tonga—and how much do firms pay in taxes? Globally, Tonga stands at 80 in the ranking of 190 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 Tonga (see table 8.2 and table 8.3 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.

.

Figure 8.1 How Tonga 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 Tonga (table 8.1)?

Table 8.1 How has Tonga made paying taxes easier—or not?
By *Doing Business* report year from DB2011 to DB2017

DB year	Reform
DB2011	Tonga simplified the payment of taxes by replacing a 2-tier system with a 25% corporate income tax rate for both domestic and foreign companies and introducing tax incentives with a broad-based capital allowance system to replace tax holidays and other tax concessions.
DB2014	Tonga made paying taxes more complicated for companies by introducing a superannuation levy—though it also abolished the business license for 2013.
DB2016	Tonga made paying taxes more complicated for companies by reintroducing the annual fee for a business license.

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 Tonga 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, how these taxes are filed and paid, how much time taxpayers spend preparing, filing and paying three major taxes (profit taxes, labor taxes including mandatory contributions and consumption taxes) and how much time taxpayers spend complying with postfiling processes and waiting for these processes to be completed.

LOCATION OF STANDARDIZED COMPANY

City: Nukualofa

The taxes and contributions paid are listed in table 8.2, along with the associated number of payments, time and tax rate.

The postfiling index is based on four components—the time to comply with a VAT or GST refund, the time to obtain a VAT or GST refund, the time to comply with a corporate income tax audit and the time to complete a corporate income tax audit (table 8.3). These components are based on expanded case study assumptions. If only VAT (or GST) or corporate income tax applies for an economy, the postfiling index is the simple average of the scores for only the two components pertaining to the applicable tax. If neither VAT (or GST) nor corporate income tax applies, the postfiling index is not included in the ranking of the ease of paying taxes.

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
Superannuation levy - employer	12		48	5%	gross salary	5.64	
Corporate income tax	1		8	25%	taxable profit	23.78	
Vehicle license	4				fixed fee	0.65	
Business License	1			TOP50 + 15%	fixed fee	0.01	
Employee paid - Superannuation levy	0	jointly		5%	gross salary	0.00	withheld
Tax on interest	0			10%	interest income	0.00	included in other taxes

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
Value added tax (VAT)	12		144	15%	value added	0.00	not included
Totals	30.0		200.0			30.1	

Source: Doing Business database.

Table 8.3 Summary of post filing data in Tonga

	Answer	Score
Postfiling index (0-100)		68.9
VAT refunds		
Does VAT/GST exist?	Yes	
Frequency of VAT/GST refund submission	monthly	
Does a VAT/GST refund process exist per the case study?	Yes	
Restrictions on VAT refund process	Carry forward for 2 months	
Likelihood of VAT audit	Highly Likely	
Time to comply with VAT refund (hours)	41.5	17.0
Time to obtain a VAT refund (weeks)	23.7	60.4
Corporate income tax audits		
Does corporate income tax exist?	Yes	
Likelihood of corporate income tax audit	Unlikely	
Time to comply with a corporate income tax audit (hours)	2.5	98.2
Time to complete a corporate income tax audit (weeks)	0.0	100.0
Administrative appeal process		
First level administrative appeal authority	Chief Commissioner of Revenue authority	
Is the appeal authority independent?	Same Auditor	
Are appeal guidelines accessible to the public?	Yes	
Source of appeal guidelines	other	
Is there a legal time limit for the appeal authority to issue a decision on the tax appeal?	No	
Legal time limit		

Source: Doing Business database.

Note:
The postfiling index is the average of the scores on time to comply with VAT refund, time to obtain a VAT refund, time to comply with a corporate income tax audit and time to complete a corporate income tax audit.
N/A = Not applicable.

TRADING ACROSS BORDERS

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive use of paper documents, 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. *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 (domestic transport is not used for calculating the ranking).

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

- Obtaining, preparing and submitting documents during transport, clearance, inspections and port or border handling in origin economy
- Obtaining, preparing and submitting documents required by destination economy and any transit economies
- Covers all documents required by law and in practice, including electronic submissions of information as well as non-shipment-specific documents necessary to complete the trade

Border compliance

- Customs clearance and inspections
- Inspections by other agencies (if applied to more than 10% of shipments)
- Port or border handling
- Processing of documents during clearance, inspections and port or border handling.

Domestic transport

- Loading and unloading of shipment at warehouse, dry port or border
- Transport by most widely used mode between warehouse and terminal or dry port
- Traffic delays and road police checks while shipment is en route

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 190 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. Special products, such as 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.
- 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.
- 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

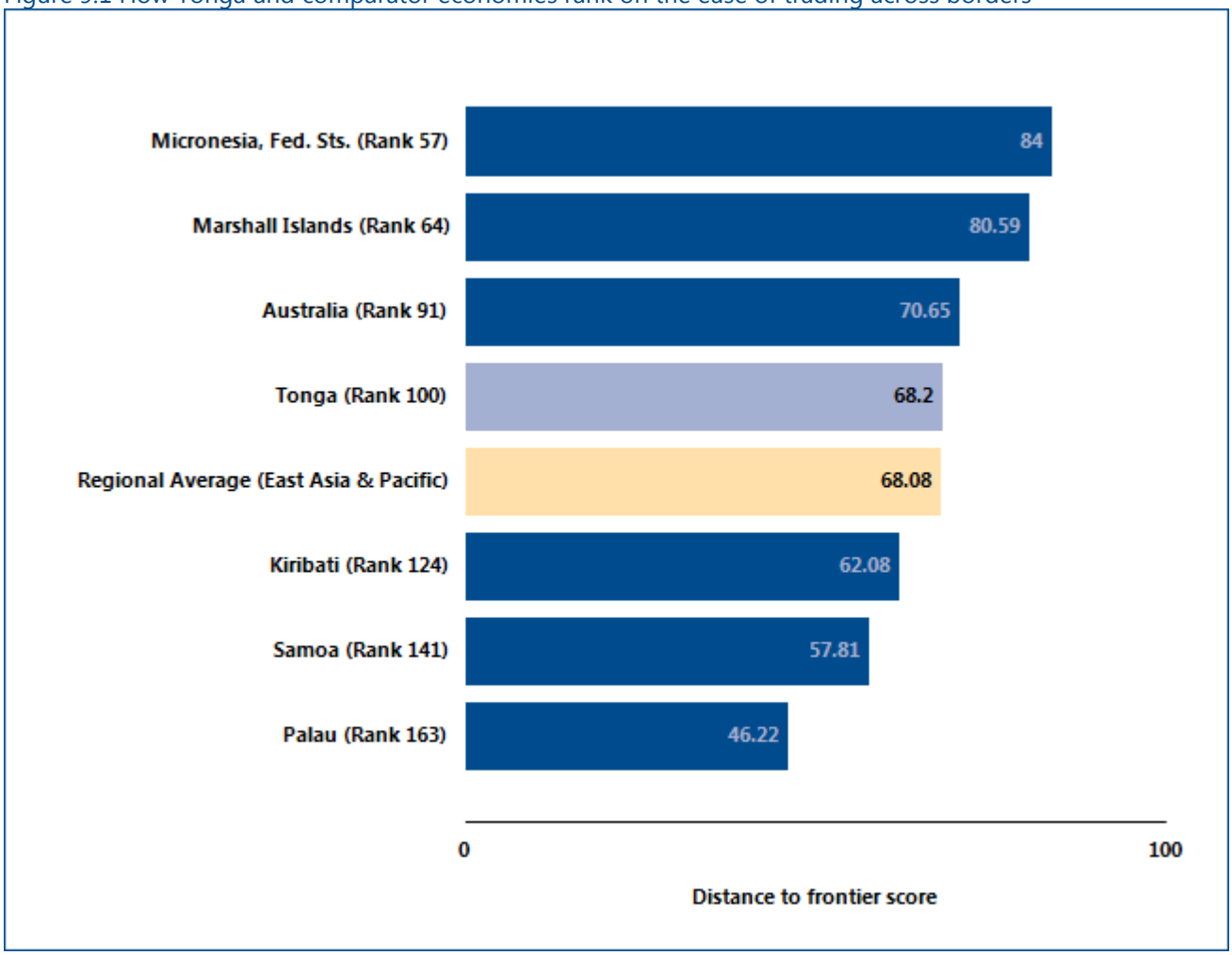
Where does the economy stand today?

The Trading across Borders 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, Tonga stands at 100 in the ranking of 190 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 Tonga 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 Tonga 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 or land 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: **Nukualofa**

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 Tonga

	Tonga	East Asia & Pacific
Time to export: Border compliance (hours)	52	57
Cost to export: Border compliance (USD)	201	402
Time to export: Documentary compliance (hours)	168	73
Cost to export: Documentary compliance (USD)	70	132
Time to import: Border compliance (hours)	26	71
Cost to import: Border compliance (USD)	330	436
Time to import: Documentary compliance (hours)	72	71
Cost to import: Documentary compliance (USD)	148	128

Source: Doing Business database.

Table 9.3 Summary of trading details, transport time and documents for trading across borders in Tonga

	Export	Import
Product	HS 03 : Fish & crustacean, mollusc & other aquatic invertebrate	HS 8708: Parts and accessories of motor vehicles
Trade partner	Hong Kong, China	New Zealand
Border	Nuku'alofa port	Nuku'alofa port
Distance (km)	5	5
Domestic transport time (hours)	1	1
Domestic transport cost (USD)	40	40

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

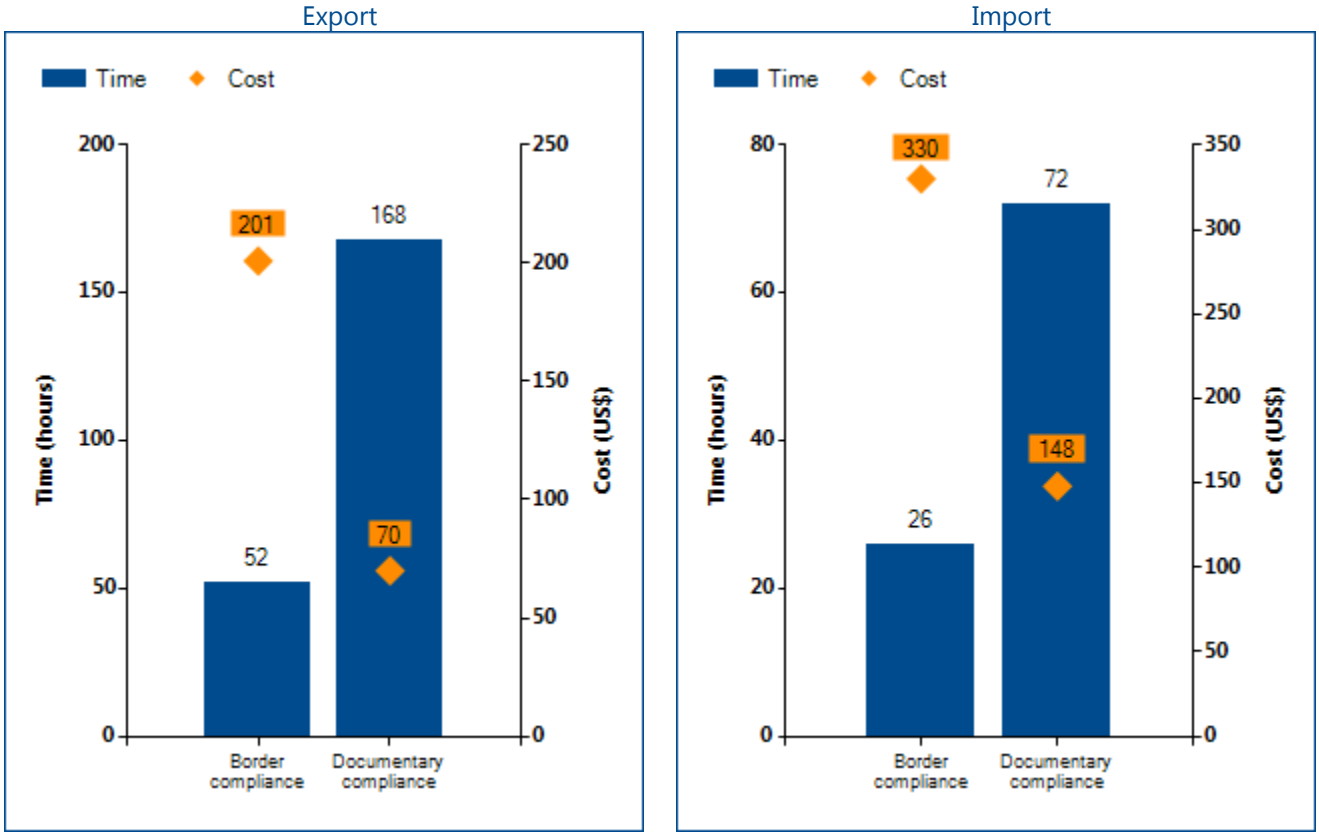
data in calculating the distance to frontier score for trading across borders or the ranking on the ease of trading across borders.

Documents to export
Export declaration
Commercial invoice
Packing list
Bill of lading
Export license

Documents to import
Cargo Release order
Import declaration
Packing list
Commercial invoice
Bill of lading

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 Tonga on the ease of trading across borders



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, *Doing Business* measures 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. 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.

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)

- 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.

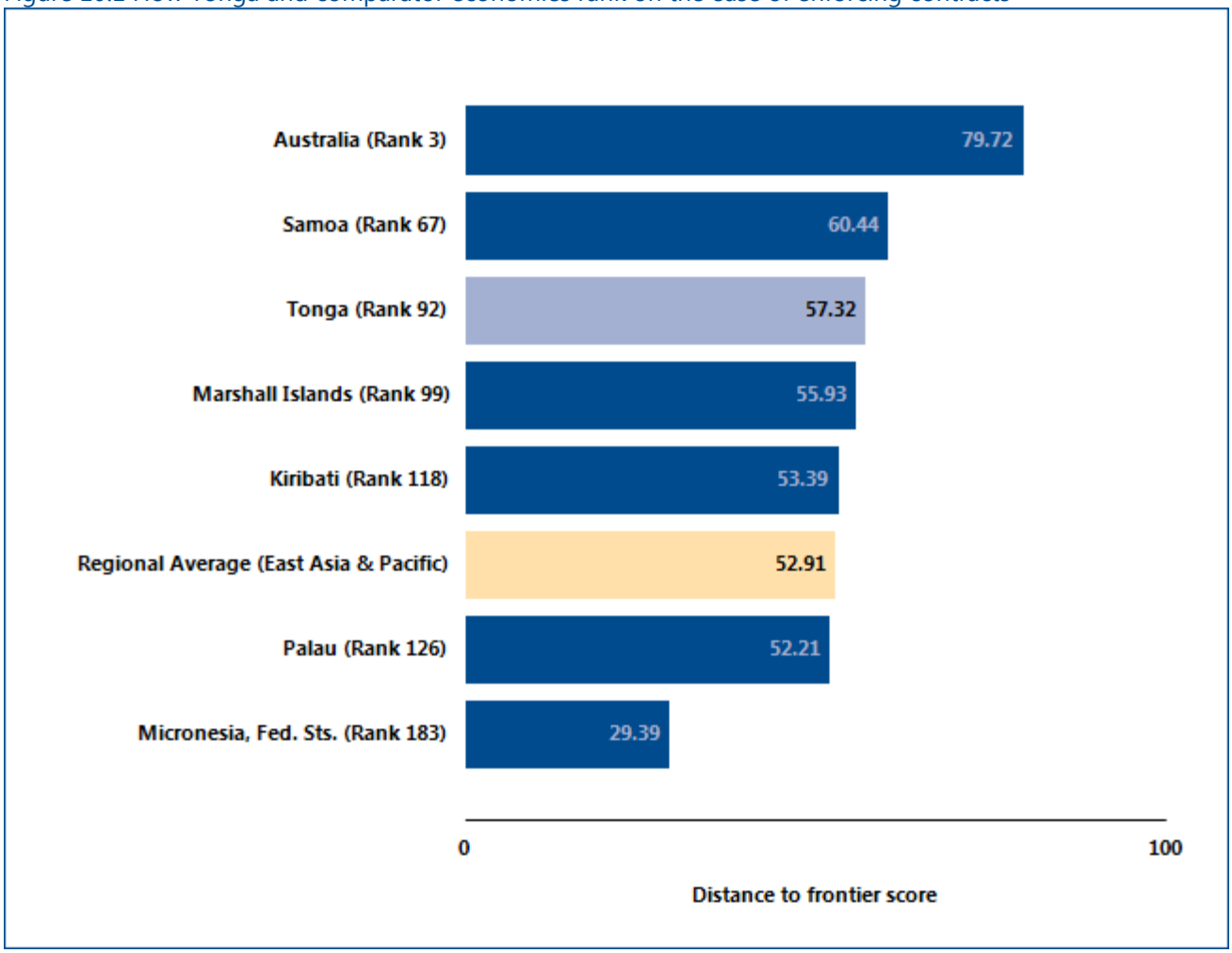
ENFORCING CONTRACTS

Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Tonga? According to data collected by *Doing Business*, contract enforcement takes 350.0 days and costs 30.5% 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, Tonga stands at 92 in the ranking of 190 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average provide other useful benchmarks for assessing the efficiency of contract enforcement in Tonga.

Figure 10.1 How Tonga and comparator economies rank on the ease of enforcing contracts



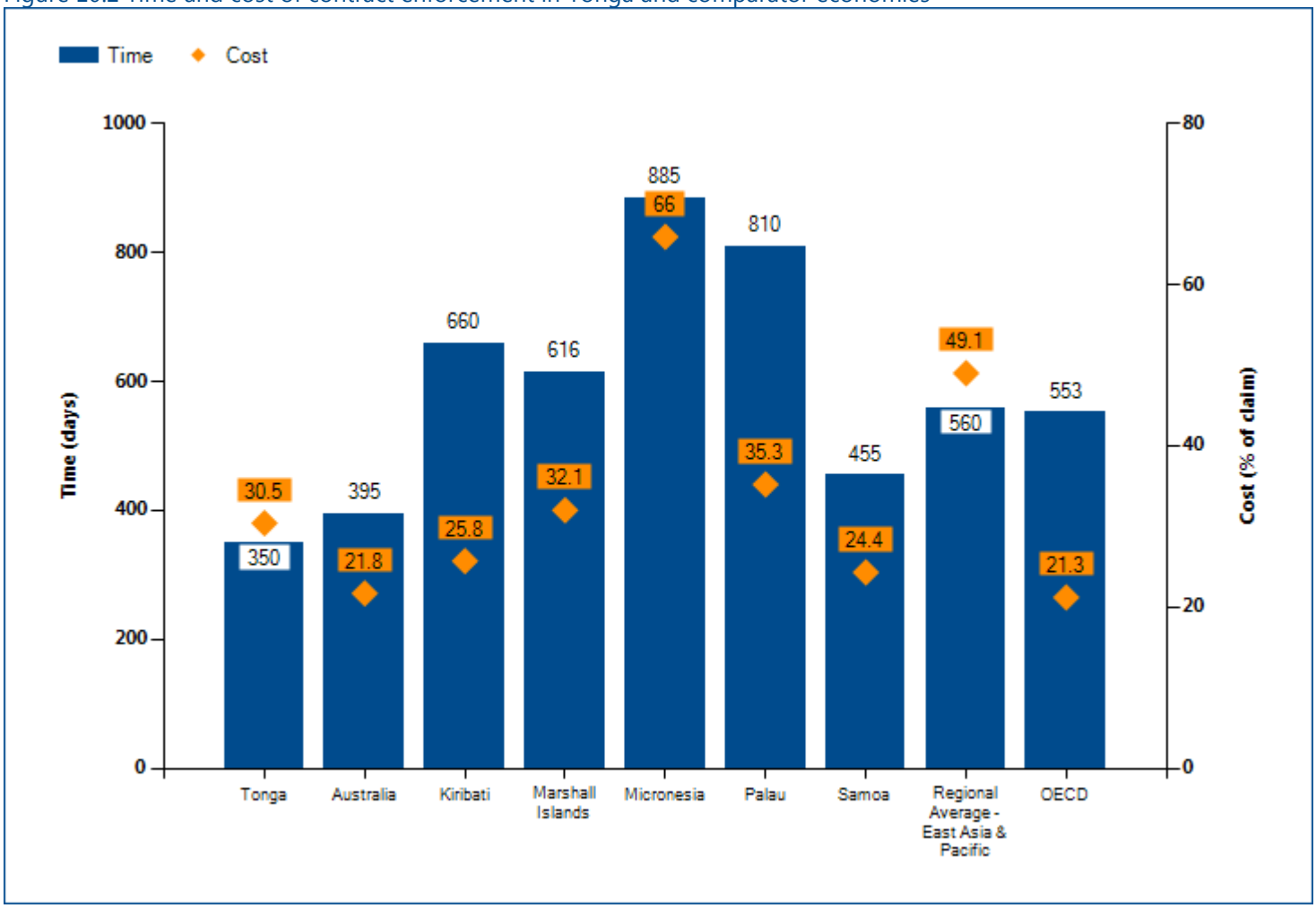
Source: Doing Business database.

ENFORCING CONTRACTS
What are the details?

The data on time and cost reported here for Tonga 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	
Claim value:	**TOP 15,442**
Court name:	**Nuku'alofa Supreme Court**
City:	**Nukualofa**

Figure 10.2 Time and cost of contract enforcement in Tonga and comparator economies



Source: Doing Business database.

Table 10.2 Details on time and cost for enforcing contracts in Tonga

Indicator	Tonga	East Asia & Pacific average
Time (days)	350	560
Filing and service	7	
Trial and judgment	263	
Enforcement of judgment	80	
Cost (% of claim)	30.5	49.1
Attorney fees	22.5	
Court fees	6.7	
Enforcement fees	1.3	

Source: Doing Business database.

ENFORCING CONTRACTS

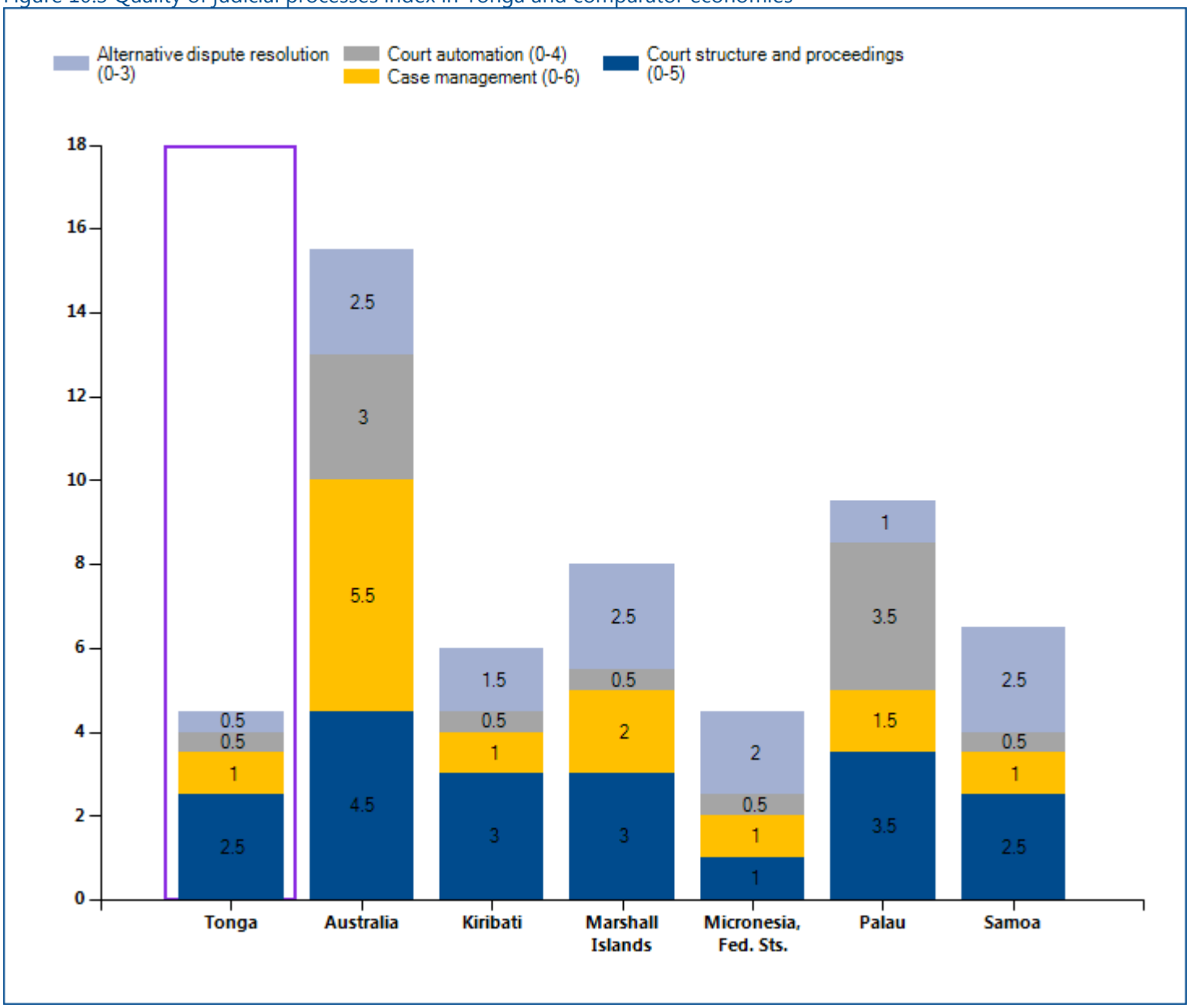
Quality of judicial processes index

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 Tonga (figure 10.3).

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 Tonga and comparator economies



Source: Doing Business database.

Table 10.3 Details of the quality of judicial processes index in Tonga

	Answer	Score
Quality of judicial processes index (0-18)		4.5
Court structure and proceedings (0-5)		2.5
1. Is there a court or division of a court dedicated solely to hearing commercial cases?	No	0.0
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?	No	0.0
5. Does a woman's testimony carry the same evidentiary weight in court as a man's?	Yes	0.0
Case management (0-6)		1.0
1. Time standards		0.0
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?	No	
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?	No	0.0
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

	Answer	Score
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)		0.5
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		0.5
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?	No	
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)		0.5
1. Arbitration		0.0
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?	No	
1.b. Are there any commercial disputes—aside from those that deal with public order or public policy—that cannot be submitted to arbitration?	n.a.	
1.c. Are valid arbitration clauses or agreements usually enforced by the courts?	n.a.	
2. Mediation/Conciliation		0.5
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?	No	
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.

To make the data on the time, cost and outcome comparable across economies, several assumptions about the business and the case are used:

- A hotel located in the largest city (or cities) has 201 employees and 50 suppliers. The hotel experiences financial difficulties.
- The value of the hotel is 100% of the income per capita or the equivalent in local currency of USD 200,000, whichever is greater.
- The hotel has a loan from a domestic bank, secured by a mortgage over the hotel's real estate. The hotel cannot pay back the loan, but makes enough money to operate otherwise.

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.

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)

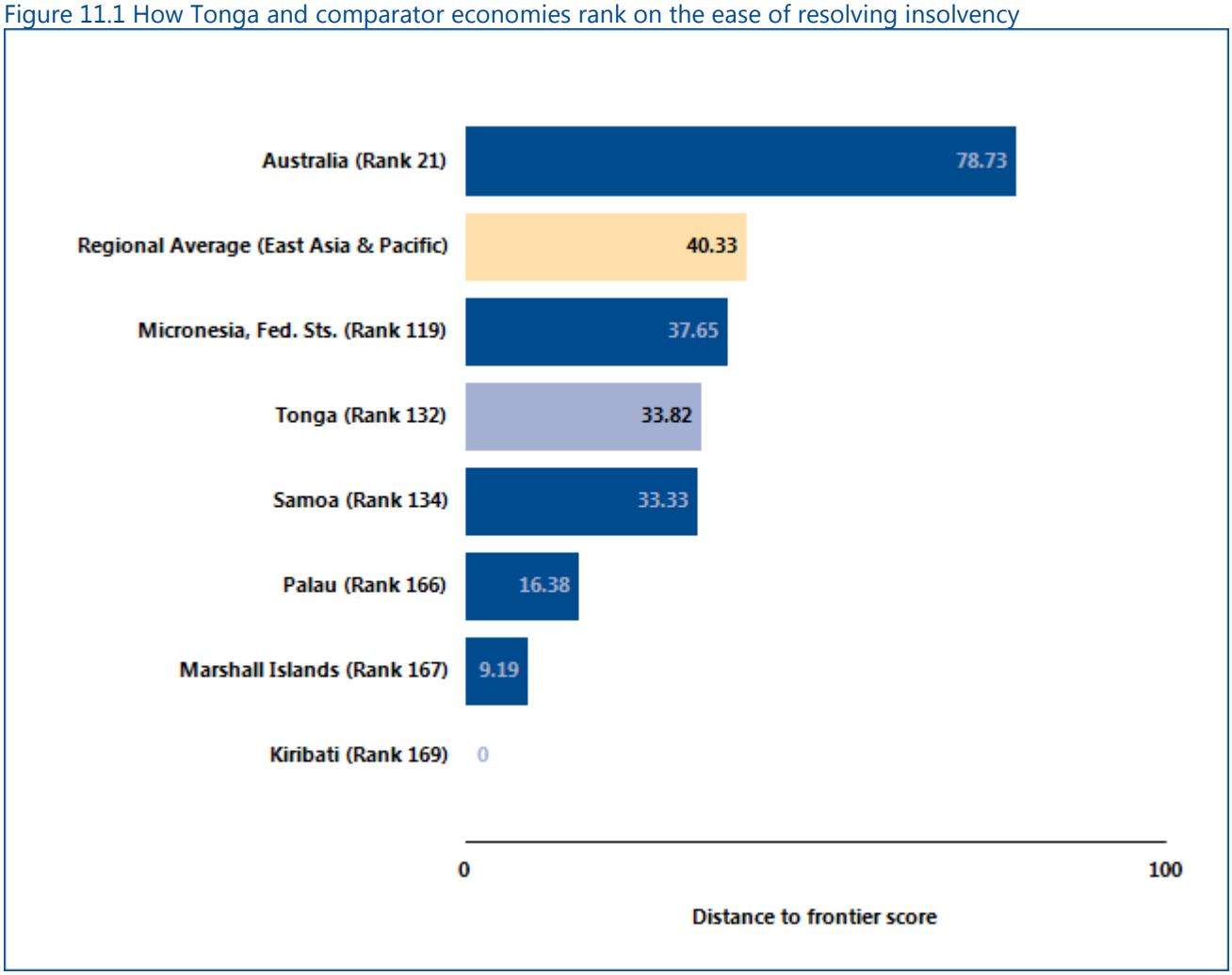
Creditor participation index (0-4)

RESOLVING INSOLVENCY

Where does the economy stand today?

Globally, Tonga stands at 132 in the ranking of 190 economies on the ease of resolving insolvency (figure 11.1). 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 indicator does 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.

Figure 11.1 How Tonga and comparator economies rank on the ease of resolving insolvency



Source: Doing Business database.

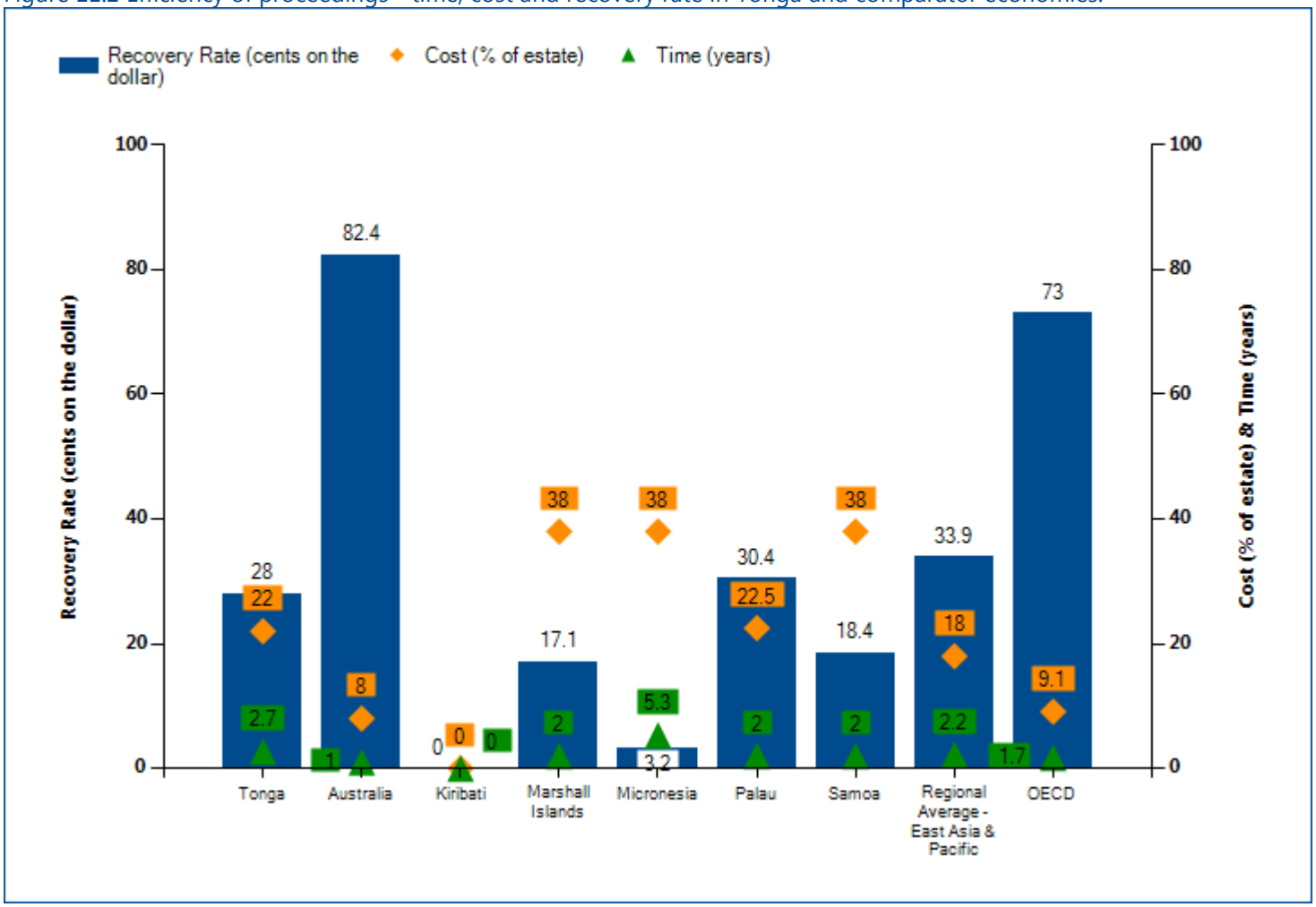
RESOLVING INSOLVENCY

Recovery of debt in insolvency

Data on the time, cost and outcome refer to the most likely in-court insolvency procedure applicable under specific case study assumptions.

According to data collected by *Doing Business*, resolving insolvency takes 2.7 years on average and costs 22.0% of the debtor's estate, with the most likely outcome being that the company will be sold as piecemeal sale. The average recovery rate is 28.0 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.

Figure 11.2 Efficiency of proceedings - time, cost and recovery rate in Tonga 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-2015 lending rates.

Table 11.1 Details of data on efficiency of insolvency proceedings in Tonga

Indicator	Answer	Explanation
Proceeding	foreclosure	After Mirage's default, BizBank would initiate foreclosure through filing at the Supreme Court, which will review the case, hear the appeal from related parties and make a decision on BizBank's foreclosure request. After the order is made, the court will endorse BizBank's mortgage repossession.
Outcome	piecemeal sale	After Court's decision on Mirage's case, BizBank would gain possession of Mirage's assets and sell them piecemeal.
Time (in years)	2.7	The foreclosure procedure until BizBank is repaid some or all of the money owed to it takes about 32 months. After Mirage's default, BizBank will send 3 warning letters over three months: one warning letter per month. Only after that, BizBank can initiate foreclosure by filing the application at the Supreme Court.
Cost (% of estate)	22.0	The costs associated with the case would amount to approximately 22% of the value of the debtor's estate. Main component of the cost is the attorney's fee which is TOP 300 per day on average.
Recovery rate: *28.0*		

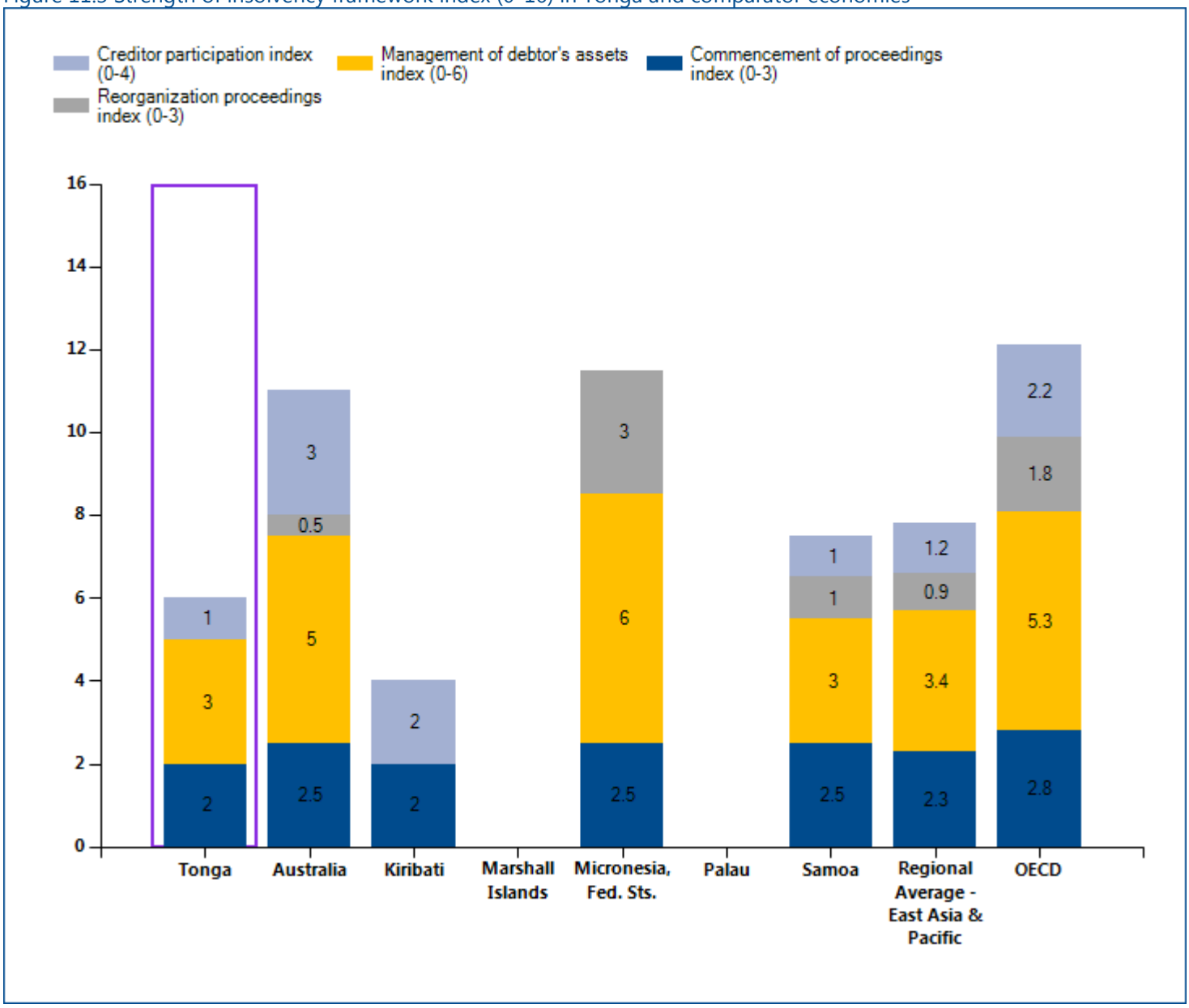
Source: Doing Business database.

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. Tonga's score on the strength of insolvency framework index is 6.0 out of 16. Data on provisions applicable to judicial liquidation and reorganization is based on the current law governing insolvency proceedings in each economy.

Figure 11.3 Strength of insolvency framework index (0-16) in Tonga 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 11.2 Summary of data for the strength of insolvency framework index in Tonga

	Answer	Score
Strength of insolvency framework index (0-16)		6.0
Commencement of proceedings index (0-3)		2.0
What procedures are available to a DEBTOR when commencing insolvency proceedings?	(b) Debtor may file for liquidation only	0.5
Does the insolvency framework allow a CREDITOR to file for insolvency of the debtor?	(b) Yes, but a creditor may file for liquidation only	0.5
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)		3.0
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)		0.0
Which creditors vote on the proposed reorganization plan?	N/A	0.0
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 devided into classes for the purposes of voting on the reorganization plan, does each class vote separately and are creditors in the same class treated equally?	No	0.0
Creditor participation index (0-4)		1.0

	Answer	Score
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?	No	0.0

Source: Doing Business database.

LABOR MARKET REGULATION

Doing Business studies the flexibility of regulation of employment, specifically as it relates to the areas of hiring, working hours and redundancy. Doing Business also measures several aspects of job quality such as the availability of maternity leave, paid sick leave and the equal treatment of men and women at the workplace.

Doing Business 2017 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

What are the details?

The data reported here for Tonga 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; and (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).

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)	0.0
Ratio of minimum wage to value added per worker	0.0

Source: Doing Business database.

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?	No
Whether nonpregnant and nonnursing women can work the same night hours as men	Yes
Restrictions on weekly holiday?	Yes
Restrictions on overtime work?	No
Paid annual leave for a worker with 1 year of tenure (working days)	0.0
Paid annual leave for a worker with 5 years of tenure (working days)	0.0
Paid annual leave for a worker with 10 years of tenure (working days)	0.0
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	0.0

Source: Doing Business database.

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)	n.a.
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	0.0
Notice period for redundancy dismissal for a worker with 5 years of tenure	0.0
Notice period for redundancy dismissal for a worker with 10 years of tenure	0.0
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure)	0.0
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	0.0
Severance pay for redundancy dismissal for a worker with 10 years of tenure	0.0
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure)	0.0

Source: Doing Business database.

LABOR MARKET REGULATION

Job quality

Doing Business introduced new data on job quality in 2015. *Doing Business* 2017 covers eight questions on job quality (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 paid maternity leave (in calendar days); (v) whether employees on maternity leave receive 100% of wages; (vi) the availability of five fully paid days of sick leave a year; (vii) whether a worker is eligible for an unemployment protection scheme after one year of service; and (viii) the minimum duration of the contribution period (in months) required for unemployment protection.

.

Job Quality	Data
Equal remuneration for work of equal value?	No
Gender nondiscrimination in hiring?	No
Paid or unpaid maternity leave mandated by law?	No
Minimum length of maternity leave (calendar days)?	
Receive 100% of wages on maternity leave?	n.a.
Five fully paid days of sick leave a year?	No
Unemployment protection after one year of employment?	No
Minimum contribution period for unemployment protection (months)?	n.a.

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 41 indicators for 10 *Doing Business* topics (the labor market regulation indicators are excluded). For starting a business, for example, New Zealand has 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 111 other economies have no paid-in minimum capital requirement (table 14.1 in the *Doing Business 2017* 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 41 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 *Doing Business 2017* report).

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*[2]. Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components[3].

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 2017 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 2017* 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 2017* 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.

[2] 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.

[3] 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 2015/16

Doing Business 2017 uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2015/16 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. Twenty-nine economies meet this criterion: Algeria; Azerbaijan; Bahrain; Belarus; Brazil; Brunei Darussalam; Burkina Faso; Côte d'Ivoire; Georgia; India; Indonesia; Kazakhstan; Kenya; Madagascar; Mali; Mauritania; Morocco; Niger; Pakistan; Poland; Senegal; Serbia; Singapore; Thailand; Togo; Uganda; the United Arab Emirates; Uzbekistan and Vanuatu. 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 190. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to 2 decimals.

RESOURCES ON THE *DOING BUSINESS* WEBSITE

Current features
News on the *Doing Business* project
http://www.doingbusiness.org

Rankings
How economies rank—from 1 to 190
http://www.doingbusiness.org/rankings

Data
All the data for 190 economies—topic rankings, indicator values, lists of regulatory procedures and details underlying indicators
http://www.doingbusiness.org/data

Reports
Access to *Doing Business* reports as well as subnational and regional reports, case studies and customized economy and regional profiles
http://www.doingbusiness.org/reports

Methodology
The methodologies and research papers underlying *Doing Business*
http://www.doingbusiness.org/methodology

Research
Abstracts of papers on *Doing Business* topics and related policy issues
http://www.doingbusiness.org/research

***Doing Business* reforms**
Short summaries of DB2017 business regulation reforms and lists of reforms since DB2008
http://www.doingbusiness.org/reforms

Historical data
Customized data sets since DB2004
http://www.doingbusiness.org/custom-query

Law library
Online collection of business laws and regulations relating to business
http://www.doingbusiness.org/law-library

Contributors
More than 12,500 specialists in 190 economies who participate in *Doing Business*
http://www.doingbusiness.org/contributors/doing-business

Entrepreneurship data
Data on business density (number of newly registered companies per 1,000 working-age people) for 136 economies
http://www.doingbusiness.org/data/exploretopics/entrepreneurship

Distance to frontier
Data benchmarking 190 economies to the frontier in regulatory practice and a distance to frontier calculator
http://www.doingbusiness.org/data/distance-to-frontier

Information on good practices
Showing where the many good practices identified by *Doing Business* have been adopted
http://www.doingbusiness.org/data/good-practice

Doing Business 2017 is the 14th in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. The report provides quantitative indicators covering 11 areas of the business environment in 190 economies. The goal of the *Doing Business* series is to provide objective data for use by governments in designing sound business regulatory policies and to encourage research on the important dimensions of the regulatory environment for firms.

ISBN 978-1-4648-0948-4

90000

9 780821 399842

SKU 210948

WORLD BANK GROUP

www.doingbusiness.org