

Doing Business

Dealing with licenses

Sextus Julius Frontinus, water commissioner of Rome in AD 97, wrote the first regulation for the maintenance of the city water system. It starts with this: “Anyone who wishes to draw water for private use must make an official application and deliver in person to the commissioner a written authorization from the emperor.”¹ The regulation was prompted by widespread “puncturing” of the aqueducts—illegal water connections. Sadly, it could not be enforced. With more than a million citizens living in ancient Rome, the emperor would have spent most of his time reviewing water applications.

The new inspection rules for construction in Harare would have made Frontinus proud. In an effort to prevent illegal construction, the chief building inspector or his deputy now conducts all building inspections. The downside is a mounting backlog, in a city where it already

takes 952 days and \$38,347 to obtain all construction approvals. The official construction sector has shrunk to 2% of GDP, and the government periodically bulldozes illegally built houses to show resolve. Zimbabwe ranks 172 on the ease of dealing with licenses (table 3.1).

Georgia used to be like Zimbabwe. Just 3 years ago getting a construction permit for a commercial warehouse in Tbilisi required 29 different procedures. Before even applying for the permit a builder needed permission from agencies as diverse as the Center of Archaeology at the Academy of Science and the Inspector of Sanitary Observation. Illegal construction activity was widespread. In 2004 less than 45% of ongoing construction projects in Tbilisi had permits.

Things have changed. Georgia was one of the top reformers in business licensing in each of the past 3

TABLE 3.1
Where is it easy to deal with licenses—and where not?

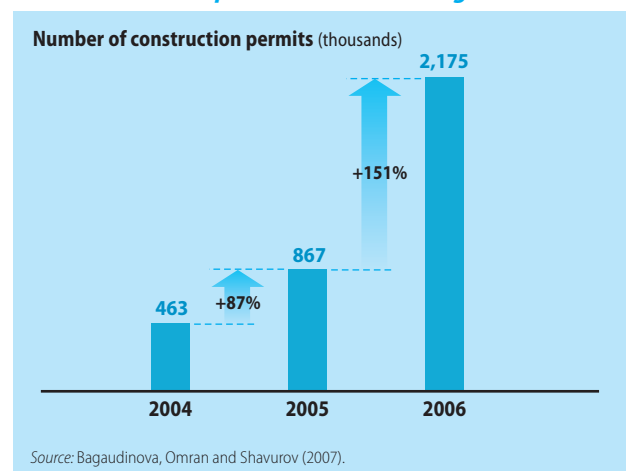
Easiest	Rank	Most difficult	Rank
St. Vincent and the Grenadines	1	Burkina Faso	169
New Zealand	2	Tanzania	170
Belize	3	Burundi	171
Marshall Islands	4	Zimbabwe	172
Singapore	5	Kazakhstan	173
Denmark	6	Ukraine	174
St. Kitts and Nevis	7	China	175
Maldives	8	Liberia	176
Kenya	9	Russia	177
Micronesia	10	Eritrea	178

Note: Rankings are the average of the country rankings on the procedures, time and cost to comply with formalities to build a warehouse. See Data notes for details.

Source: Doing Business database.

FIGURE 3.1

More construction permits issued in Georgia since reform



years, reducing the types of activities subject to licensing from 909 to 159. In the construction industry (which *Doing Business* studies as an example of licensing) Georgia eliminated many of the approvals required to obtain a construction permit and introduced a one-stop shop for licensing, a “silence is consent” rule and statutory time limits—while maintaining procedures necessary for regulating in the public interest. The number of procedures needed to build a warehouse dropped to 12. The time required fell by nearly 3 months. The approval process for building a warehouse in Georgia is now more efficient than in all EU countries except Denmark. The result: in 2006 the number of construction permits issued in Georgia was 151% higher than in 2005 and 370% higher

than in 2004 (figure 3.1). Construction grew from 6.4% of the Georgian economy in 2003 to more than 9% in 2006.

The transition to legal construction is not without pain. On July 20, 2007, the residents of downtown Tbilisi woke to the sound of sirens. Fire brigades had begun demolishing a 13-story building that had gone up before the reform and was now in danger of collapsing because of faulty engineering. The building had no project or operating license—and didn’t even show up in the city plan. Yet it towered over the surrounding houses, kept from falling over by steel beams. To avoid the many approval procedures, the building company had simply paid off the mayor. Who loses out? The people who bought apartments and now must find a new place to live.²

Who is reforming?

Fifteen countries made it easier to comply with building requirements in 2006/07. Eastern Europe had the biggest reforms—in Bulgaria, the Czech Republic, Georgia and FYR Macedonia. Africa followed, with reforms in Kenya, Mauritius, Nigeria and Rwanda. The Middle East and North Africa was next, with reforms in Egypt, Kuwait and Morocco. Three countries—Georgia, Guatemala and Kenya—reformed for the second year in a row.

Some countries reviewed all business licenses required and eliminated unnecessary ones. Kazakhstan cut the number of licensed activities from 426 to 100. Uzbekistan extended the minimum term for a business license from 1 year to 5. And it now allows 13 business activities—including tourism, auditing, brokerage services and securities market operations—to be licensed for life. Kenya eliminated 110 licenses and simplified 8

others. The government plans to cut another 314 licenses and simplify 599 more.

“I recently received a call from the city council to follow up on plans I had submitted—completely unheard of before,” comments a Kenyan architect. Such services have become more common since the minister of housing and lands launched a rapid response initiative in November 2006. Getting a building permit used to take 80 days. It required clearances from 6 agencies and review by a ministerial committee. The new initiative removed the committee review, shortening the time to obtain a permit by 30 days (figure 3.2).

Simplifying procedures was the most popular reform in construction licensing in 2006/07 (table 3.2). Mauritius combined its development and building per-

FIGURE 3.2
Cutting time to obtain licenses

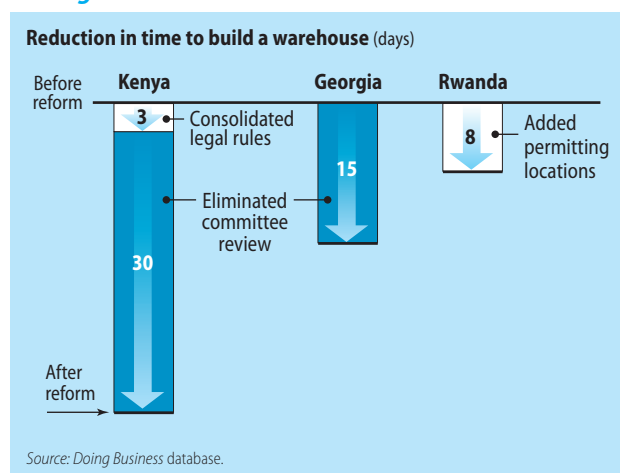


TABLE 3.2
Simplifying licensing—the most popular reform in 2006/07

Simplified licensing and inspection procedures

Bulgaria, Czech Republic, Georgia, Guatemala, Indonesia, Kenya, Mauritius, Rwanda

Established statutory time limits for issuing licenses

FYR Macedonia, Mauritius, Nigeria

Introduced electronic processing of applications

China, Honduras, Kuwait, Morocco

Adopted new building code

Czech Republic, Nigeria

Introduced fast-track procedures

Czech Republic, Georgia

Introduced private inspections

Czech Republic

Lowered fees

Egypt

Source: *Doing Business* database.

TABLE 3.3
Who regulates licensing the least—and who the most?

Procedures (number)			
Fewest		Most	
Denmark	6	Brunei	32
New Zealand	7	Burkina Faso	32
Vanuatu	7	Guinea	32
Sweden	8	Tajikistan	32
Chad	9	El Salvador	34
Grenada	9	Czech Republic	36
Maldives	9	China	37
St. Lucia	9	Kazakhstan	38
Jamaica	10	Sierra Leone	47
Kenya	10	Russia	54
Time (days)			
Least		Most	
Korea	34	Ukraine	429
Finland	38	Suriname	431
United States	40	Bosnia and Herzegovina	467
Vanuatu	51	Lesotho	601
Marshall Islands	55	Côte d'Ivoire	628
Solomon Islands	62	Iran	670
New Zealand	65	Russia	704
Belize	66	Cambodia	709
Denmark	69	Zimbabwe	952
St. Kitts and Nevis	72	Haiti	1,179
Cost (% of income per capita)			
Least		Most	
United Arab Emirates	1.5	Kazakhstan	2,130
Brunei	5.2	Tanzania	2,366
Trinidad and Tobago	5.9	Guinea-Bissau	2,607
Palau	6.1	Serbia	2,713
St. Vincent and the Grenadines	9.2	Niger	2,824
Malaysia	10.0	Russia	3,788
Hungary	10.4	Burundi	9,939
Thailand	10.7	Zimbabwe	11,799
Australia	13.2	Afghanistan	21,231
United States	13.4	Liberia	61,049

Source: Doing Business database.

mits into one. The dual permit is now issued in 2 weeks, reducing the time to complete formalities by 55 days. In Guatemala the Ministry of Environment eliminated duplications in procedures by placing its staff in municipal offices and the Ministry of Healthcare, cutting the time by 60 days. Russia abolished the notification permit re-

quired to begin construction (which was separate from the construction permit), saving entrepreneurs 20 days. But more needs to be done in a country where the permitting process still takes almost 2 years.

Other countries focused on cutting delays. The Czech Republic streamlined provisions of its new building code, speeding construction approvals by 50 days. Builders can now apply for 2 permits at the same time, and a simple notification has replaced the occupancy permit. Indonesia introduced a simplified process and new temporary permits that allow construction to begin while the full permit is being approved, cutting the time to obtain a building permit from 49 days to 21. In FYR Macedonia it now takes only 1 day to obtain proof of landownership—59 days less than in 2006. Rwanda sped the issuance of building and occupancy permits by 24 days after transferring authorities from the prefecture to the municipality. Nigeria shifted approval to local authorities and equipped their staff with computers and training, shortening the time for building authorizations from 90 days to 42.

Another popular reform was to make processes electronic. Honduras launched electronic processing of applications for fixed telephone lines, cutting the time for approval from 2 weeks to 1. Kuwait installed a new automated system in all agencies responsible for issuing technical approvals. The time to obtain an approval for a phone line dropped from 30 days to 20, for electricity from 2 weeks to 1, and for a water plan from 14 days to 5. In China, Beijing and Shanghai now process applications for construction permits electronically and allow construction companies to apply for safety certificates online, reducing delays by 2 weeks. But more remains to be done: to complete construction permitting in China still takes 37 procedures and 336 days (table 3.3).

Morocco set up an electronic one-stop shop for construction permits at the end of 2006, reducing the time to obtain a building permit from 30 days to 20. More can be done. The commission that issues approvals reviews projects by neighborhood. Two weeks can pass waiting for your neighborhood's turn in the commission's schedule.

What to reform?

In the past 3 years 42 countries have reformed their construction licensing regulations. Here are the 5 most successful reforms:

- Reduce licensing requirements.
- Make information easily available.
- Introduce online license applications.
- Curb inspections.
- Consolidate project clearances.

Reduce licensing requirements

Reducing business licensing requirements demands action by many ministries. Here are 2 ways to make it happen. First, make the ministry of finance or the prime minister's office responsible for implementation, since other ministries respond best when their budgets depend on it. Second, commit to a target reduction in the administrative costs of issuing and regulating licenses and set up a measuring system to ensure that it is achieved. This holds regulators accountable.

The Netherlands, with the best such reform yet, has done both. The government set a target of reducing the administrative burden by 25% by 2007. The minister of finance was responsible for achieving the target, reporting to parliament every 6 months. Uncooperative ministries could see their budget cut. An independent agency, the Advisory Board on Administrative Burden, was established to monitor progress and publicize its findings. The program aims to save €4 billion. Its savings from streamlining tax requirements alone are estimated at €600 million. And Dutch entrepreneurs have saved €11.3 million from simplifications in construction licensing.³ The advisory board also vets new regulatory proposals before they reach parliament—to stop creeping reregulation, a common problem.

Other European countries are starting to benefit from this experience, as Dutch reformers are lobbying the European Union to adopt similar targets. Several governments—in the Czech Republic, Denmark and the United Kingdom—have already done so. The European Commission recently announced a target of reducing administrative burdens by 25%—similar to the Dutch approach. Since EU regulations account for about 40% of all business regulations in the 27 member countries, there is a lot to gain.⁴ Comprehensive reforms like these are not just for rich countries. With its plan to cut 424 unnecessary licenses well under way, Kenya is the first African country to show how poor ones can gain too.

Make information easily available

In China public utilities are now required to publish online their service fees, time limits for issuing approvals and ways to launch complaints. Another way to save entrepreneurs time: help them navigate the process for a building permit by making all the forms and requirements—including step-by-step charts on procedures—available at municipal offices. When Latvia did this, it cut processing time by 2 months. FYR Macedonia, as part of its recent reforms, distributed an electronic construction permitting package with documents and manuals to all 84 of its municipalities, along with posters and flyers explaining each step for applicants.

Introduce online license applications

In Singapore builders submit all permit applications electronically. Developers in Austria, Denmark, Iceland, Malaysia, Norway and the United States also complete their applications online. Some developing countries with adequate Internet penetration—such as El Salvador, Honduras and Mexico—are introducing online systems too. This reform saves time for both entrepreneurs and government officials. It also removes the contact between them—and the chance for bribe payments along with it.

Curb inspections

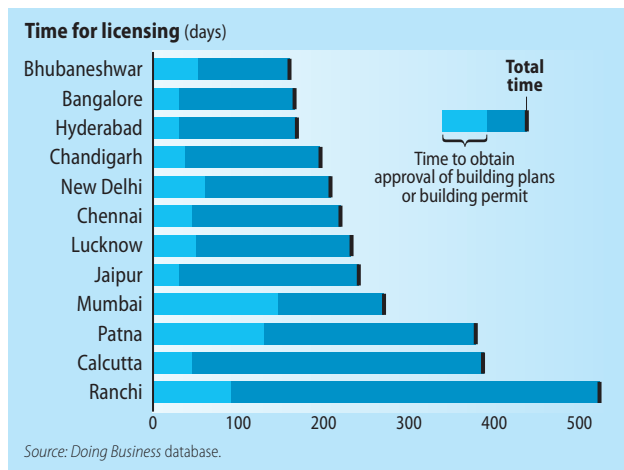
In Burkina Faso inspectors visit construction sites every 2 weeks and charge \$240 in fees. In Denmark and Singapore there is only one inspection and it's free. But no one would argue that buildings in Copenhagen and Singapore are less safe than those in Ouagadougou.

Inspections are needed to ensure construction quality. But in many countries inspection fees and fines are viewed as an important source of government revenue. That needs to change. Recent studies show that eliminating unnecessary and redundant procedures can increase revenue. Kenya reported a revenue increase of up to 33% after replacing dozens of local permits with a single business permit.⁵

One way to make inspections more efficient is to privatize them. The Czech Republic just did so, by creating a new independent profession—authorized inspectors. By hiring an authorized inspector, an entrepreneur can speed the process of getting a building permit by up to 5 weeks. The inspector issues a certificate confirming that the project documentation is in compliance with the building code and that the building can be constructed.

FIGURE 3.3

Construction licensing in India—fastest in Bhubaneswar



Finland introduced private inspections in 2004. In the United States 25% of inspectors work for private architectural and engineering services firms, conducting inspections for a fee or on a contract basis. One in 10 construction and building inspectors is self-employed.

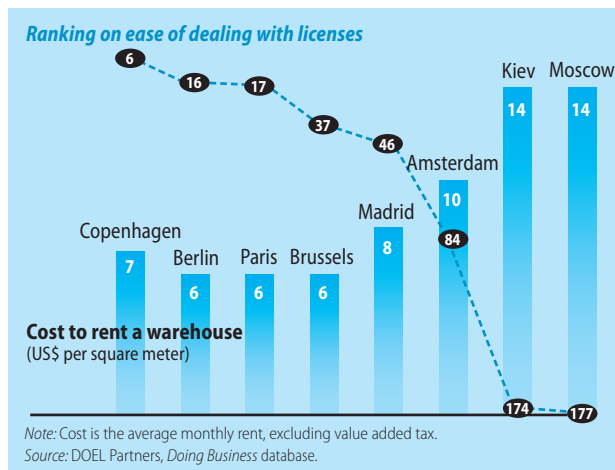
Consolidate project clearances

In Mauritania applicants for a building permit have to follow up at least twice with each of 7 different departments in the municipality to make sure their application gets processed and approved. Why not centralize all project clearances in a single office at the municipality? That’s what Italy did, and the process is much faster now that developers no longer have to make separate trips to the fire, worker safety, water, sanitation, health, project design and tax departments. Another 34 countries—from Armenia to Canada to Panama—have consolidated approvals to simplify the licensing process.

Consolidating project clearances requires reform at the municipal level of government. In India, for example, approving a construction permit takes about 5 months for the municipality of Mumbai—but only 1 month for the municipalities of Hyderabad and Jaipur (figure 3.3). To reduce the delays in Mumbai, the Maharashtra state government is introducing a single window for clearances.

FIGURE 3.4

Slow license approvals, high warehouse rents



Such reforms encourage investment in property development. That lowers costs for end users. In Kiev, where construction approvals take 429 days, the monthly cost to rent a warehouse averages \$14 a square meter. That’s twice what an entrepreneur pays in Copenhagan, where licensing takes only 69 days, or Paris, where it takes 137 (figure 3.4). Reforms pay off for governments too. A recent study in the United States showed that a 3-month acceleration in permit approvals on a 22-month project cycle could increase property tax revenue by 16.5% and construction spending for local governments by 5.7%.⁶

Notes

1. Sextus Julius Frontinus, “On the Water Management of the City of Rome,” translated by R. H. Rodgers, University of Vermont, Burlington, 2003 (<http://www.uvm.edu/~rrodders/Frontinus.html>).
2. The municipality of Tbilisi has offered the residents compensation so they can buy apartments elsewhere.
3. Advisory Board on Administrative Burden (2007).
4. Ladegaard, Djankov and McLiesh (2007).
5. Devas and Kelly (2001).
6. PricewaterhouseCoopers (2005).