

# Dealing with construction permits

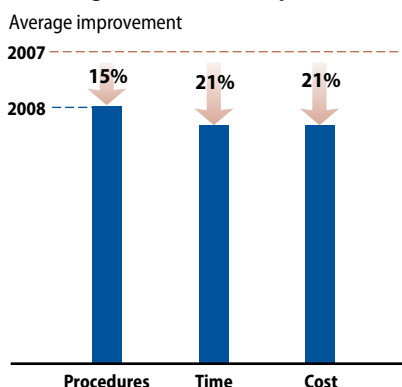
- Employing workers
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Closing a business

In 2007 the municipality of Niamey, Niger, issued only 300 building permits. But you wouldn't know it by looking around the city, where buildings are sprouting fast. "Building permit? Who needs that? Just hire a contractor, tell him what you want, and out of the ground it comes," says a local developer.

This approach to building has resulted in a city at odds with the original zoning plans: water pipes zigzag in every direction, and houses extend beyond their assigned land parcels. The reason: obtaining all building-related approvals and connecting to utilities can take entrepreneurs almost 9 months, at a cost of 2,694% of income per capita.

The situation may soon change. Niger adopted a new building law in March 2008, following the collapse of 2

FIGURE 3.1  
Top 10 reformers in dealing with construction permits



1. Kyrgyz Republic
2. Burkina Faso
3. Hong Kong, China
4. Rwanda
5. Armenia
6. Belarus
7. Jamaica
8. Croatia
9. Bosnia and Herzegovina
10. Angola

Source: Doing Business database.

buildings in the center of Niamey.

In Almaty, Kazakhstan, builders suffer the burden of overregulation. Undertaking the construction of a simple warehouse requires navigating a labyrinth of 38 procedures and 18 agencies—and spending 231 days in the process.

Striking the right balance is a challenge when it comes to construction regulations. Good regulations ensure the safety standards that protect the public while making the permitting process efficient, transparent and affordable for both building authorities and the private professionals who use it. If procedures are overly complicated or costly, builders build without a permit.

In an effort to achieve this balance between safety and cost, Bavaria introduced a differentiated permitting approach in 1994. Low-risk projects require that the designing architects show proof of their qualifications and assume liability for the construction. Medium-risk ones require that an independent certified appraiser approve the plans. Only high-risk, complex projects are fully reviewed by building authorities.<sup>1</sup> By 2002 builders had saved an estimated €154 million in building permit fees, and building authorities had 270 fewer employees on their payroll. The approach has spread to the rest of Germany.

Economies that score well on the ease of dealing with construction permits tend to have rigorous yet expeditious and transparent permitting processes (table

3.1). Speed matters. A recent study in the United States shows that accelerating permit approvals by 3 months in a 22-month project cycle could increase property tax revenue by 16.15% and construction spending for local governments by 5.7%.<sup>2</sup> Yet in 80 of the 181 economies studied in *Doing Business*, compliance with construction formalities takes longer than the standardized 30-week construction project itself.

Singapore's Building and Construction Authority provides easy access to the information needed for obtaining a construction permit. Its website lists all the forms that must be filled out, provides downloadable copies and enables users to submit all paperwork electronically. Developers in Austria, Denmark, Iceland, Malaysia and the United States also complete their applications online.

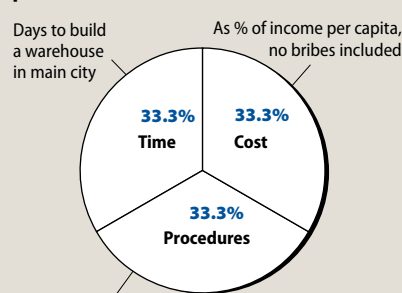
TABLE 3.1  
Where is dealing with construction permits easy—and where not?

Easiest	RANK	Most difficult	RANK
St. Vincent and the Grenadines	1	Tanzania	172
Singapore	2	Burundi	173
New Zealand	3	Zimbabwe	174
Belize	4	Kazakhstan	175
Marshall Islands	5	China	176
St. Kitts and Nevis	6	Liberia	177
Denmark	7	Tajikistan	178
Maldives	8	Ukraine	179
Kenya	9	Russian Federation	180
Georgia	10	Eritrea	181

Note: Rankings are the average of the economy 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 3.2  
Rankings on dealing with construction permits are based on 3 subindicators



Procedure is completed when final document is received; construction permits, inspections and utility connections included

Note: See Data notes for details.

Twenty-seven economies, including France and Hong Kong (China), ensure timely approvals for building permits through silence-is-consent rules, with time limits ranging from 2 to 4 weeks.

Finland and Singapore—both among the 10 fastest in dealing with construction permits—hold the architect or another qualified professional accountable for supervising the construction and ensuring its quality.

### WHO REFORMED IN 2007/08?

Eighteen economies made it easier for businesses to comply with construction-related formalities in 2007/08 (table 3.2). Africa had the most reforms, with 6 economies—Angola, Burkina Faso, Liberia, Mauritania, Rwanda and Sierra Leone—making it easier to deal with construction permits. Eastern Europe and Central Asia followed, with reforms in Armenia, Belarus, Bosnia and Herzegovina, Croatia and the Kyrgyz Republic.

In East Asia and Pacific, Hong Kong (China), Singapore and Tonga streamlined procedures. In Latin America and the Caribbean, Colombia and Jamaica reduced the time to process building permit applications. Among OECD high-income economies, Portugal was the only reformer. In the Middle East and North Africa, Egypt was the only one. South Asia recorded no major reforms.

The Kyrgyz Republic was the top reformer in dealing with construction permits in 2007/08. A new one-stop shop was launched for issuing architectural planning terms and construction permits. Regulations left over from Soviet times had required builders to obtain separate preapprovals from each utility authority. Now all approvals are handled in the one-stop shop.

Kyrgyz reformers didn't stop there. A presidential decree eliminated the location permit, which had required the signature of Bishkek's mayor and took 60 days to obtain. "It used to be a nightmare. You never knew what additional papers would be required," says Bekbolot, owner of a medium-size construction

TABLE 3.2

### Streamlining permitting procedures—a popular reform feature in 2007/08

Streamlined construction permit procedures	Angola, Colombia, Croatia, Hong Kong (China), Jamaica, Kyrgyz Republic, Rwanda, Tonga
Reduced permit processing times	Belarus, Bosnia and Herzegovina, Colombia, Jamaica, Liberia, Singapore
Adopted new building regulations	Croatia, Egypt, Mauritania, Portugal, Tonga
Reduced fees	Armenia, Bosnia and Herzegovina, Burkina Faso, Hong Kong (China), Liberia
Improved inspection regime for construction projects	Burkina Faso, Hong Kong (China), Sierra Leone

Source: Doing Business database.

company. The mayor's office no longer handles occupancy permits either. "It took me 6 months before the reforms, and I still could not obtain the mayor's signature. After the reforms, it took me just over a week to get my occupancy permit signed and sealed."

After cutting 9 procedures and 173 days, the government is now focusing on reducing the cost—still high at more than 405% of income per capita.

Burkina Faso, once among the bottom 10 on the ease of dealing with construction permits, was the second fastest reformer. A multifaceted reform program cut 12 days and reduced the cost by 25%. To start, a government decree limited the number of on-site inspections by the National Laboratory for Buildings and Public Works. That eliminated the biweekly random inspections that used to plague builders in Ouagadougou. "We can still expect inspections at certain critical stages, but this is a far cry from the up to 15 or so we could receive before," says one architect. In May 2008 the government launched a one-stop shop. This has already shown results. It cut fees for soil exams in half and reduced those for municipal approvals and fire safety studies. And it allows applicants for building permits to make all payments at a single place.

Reformers were active in Africa. In Liberia the Ministry of Public Works committed to delivering building permits in just 30 days, down from 90. The ministry advertised the 30-day statutory time limit and designed a user-friendly checklist of all the documents required.

It also eliminated the need for the minister's signature on building permits for simpler projects by delegating approval to mid-level staff.

Liberia's deputy minister of public works cut building permit fees in half, from \$1,400 to \$700, to encourage more legal building in Monrovia. "I thought people were going underground because costs were too high, so I decided to cut fees." In a country where obtaining a building permit used to cost 10 times income per capita and other costs of construction permitting remain high, this makes sense (table 3.3).

Sierra Leone revamped its inspection regime. Existing regulations provided for inspections after each stage of construction. But inspectors would come at random once or even twice a week. Starting in 2007, the Ministry of Lands, Housing, Country Planning and Environment recruited a new cadre of professional inspectors and began enforcing the regulations.

Rwanda streamlined project clearances for the second year in a row by combining the applications for a location clearance and building permit in a single form. And businesses now need to submit only one application form for water, sewerage and electricity connections. Angola incorporated the applications for electricity and water connections into the building permit process, cutting procedures from 14 to 12.

Mauritania introduced its first building code. This simplifies the requirements for small construction projects and lays the groundwork for a one-

TABLE 3.3

**Who regulates construction permits the least—and who the most?**

<i>Procedures (number)</i>			
<b>Fewest</b>		<b>Most</b>	
Denmark	6	Azerbaijan	31
New Zealand	7	Hungary	31
Vanuatu	7	Brunei	32
Sweden	8	Guinea	32
Chad	9	Tajikistan	32
Maldives	9	El Salvador	34
St. Lucia	9	Czech Republic	36
Grenada	10	China	37
Jamaica	10	Kazakhstan	38
Kenya	10	Russian Federation	54
<i>Time (days)</i>			
<b>Fastest</b>		<b>Slowest</b>	
Korea	34	Cameroon	426
Finland	38	Suriname	431
Singapore	38	Ukraine	471
United States	40	Lesotho	601
Vanuatu	51	Côte d'Ivoire	628
Marshall Islands	55	Iran	670
Bahrain	56	Russian Federation	704
Solomon Islands	62	Cambodia	709
New Zealand	65	Haiti	1,179
Belize	66	Zimbabwe	1,426
<i>Cost (% of income per capita)</i>			
<b>Least</b>		<b>Most</b>	
Qatar	0.8	Ukraine	1,902
United Arab Emirates	1.5	Tanzania	2,087
St. Kitts and Nevis	5.1	Serbia	2,178
Brunei	5.3	Russian Federation	2,613
Trinidad and Tobago	5.5	Guinea-Bissau	2,629
Palau	5.9	Niger	2,694
Malaysia	7.9	Burundi	8,516
St. Vincent and the Grenadines	8.4	Afghanistan	14,919
Thailand	9.4	Zimbabwe	16,369
Hungary	10.3	Liberia	60,989

Source: *Doing Business* database.

stop shop for building permits.

In Zimbabwe and Benin, obtaining building permits became more difficult. In Zimbabwe's capital, Harare, employees have been leaving the construction administration. With fewer trained professionals to review applications, getting a building plan approved by the city council can now take a year.

In Cotonou, Benin, it now takes about 180 days to obtain a building permit—3 months longer than it used to—because of administrative backlogs. A new regulation released in June 2007

sets statutory time limits of 120 days for building permits. But these time limits have yet to be enforced.

Eastern Europe and Central Asia saw many reforms, though only half of them easing the regulatory burden. In Croatia a new building code eliminated the need for a building permit for smaller projects and eased the requirements for larger ones. Now mid-size commercial construction projects no longer need clearances from the fire department, water and sewerage authorities, telephone company, labor inspec-

torate and sanitary authority—cutting 5 procedures.

In Bosnia and Herzegovina administrative improvements made it easier to obtain cadastre excerpts, required for building permits, and to register new buildings in the cadastre and land book registry. That cut the time from 467 days to 296. In Belarus new statutory time limits for pre-permitting procedures and building permits reduced the time by 140 days. In Armenia companies no longer have to pay “charitable contribution” fees to obtain the designing right. That cut the cost by 383.3% of income per capita.

Several economies went the other way. In Serbia the wait for building permits increased by an average 75 days. In Ukraine a regulation introduced in 2007 requires businesses to pay a “contribution” to infrastructure development that amounts to 15% of construction costs. Now builders in Kiev can expect to pay 1,902% of income per capita to deal with construction-related formalities.

In East Asia, Hong Kong (China) pursued a broad program that eliminated 8 procedures and cut the time for construction permits by more than 5 weeks, ranking it among the top reformers globally. In 2006 the government, working with the private sector, created a cross-sector consultation team to identify ways to improve permitting procedures. Working groups started with agencies and companies operating in the construction sector found redundant procedures, improved communication and coordination schemes and identified regulatory “easy fixes” that could improve efficiency. “This is a very clever and pragmatic approach—something very much in touch with our culture,” comments the owner of a local construction company.

Singapore reduced the time for dealing with construction permits by two-thirds in 2007/08—more than any other economy in the world. The agencies responsible for approvals cut their internal time limits by half. To save more time, the Building and Construction Au-

thority's new data management system makes processing smarter and more user friendly. Today builders regularly receive updates on the status of their permit applications by e-mail and text messaging.

Latin America and the Caribbean also saw important reforms. In Colombia the magistrates responsible for issuing building permits started using a single form. Builders no longer need to obtain the names and contact information of all neighbors before submitting a permit application. A decree implementing a decade-old silence-is-consent rule kicked in, reducing the time to obtain a building permit from 3 months to 2. In Jamaica the government began implementing a 90-day statutory time limit. That cut the time to obtain a building permit from 210 days to 130—much better, though still short of the target.

Elsewhere, economies continued to revamp their building codes. Tonga implemented its 2005 building code in late 2007. The new code incorporates zoning and health and fire safety approvals into the building permit process, cutting 3 procedures and reducing the time by 12 days. Portugal's new building regulations introduced electronic processing of documents. Egypt's new building code aims to reduce the time to obtain a building permit by establishing a single window and enforcing a 30-day statutory time limit. The new code also introduces a single certificate for obtaining all utility connections. Before, each utility connection required 3 separate letters from the municipality.

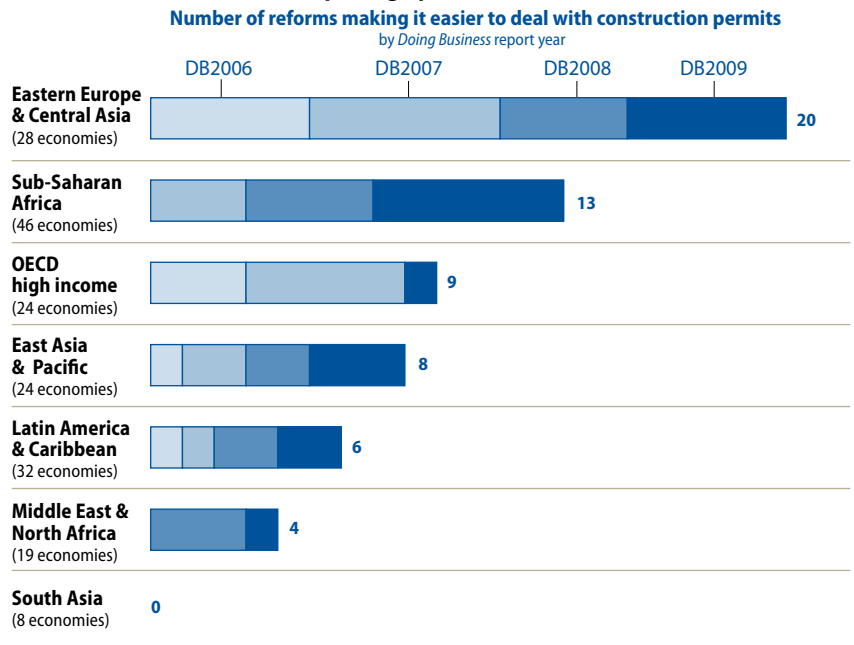
### WHAT ARE THE REFORM TRENDS?

In the past 4 years, with 20 reforms, Eastern Europe and Central Asia has had the most reforms making it easier to deal with construction permits (figure 3.3). Africa follows, with 13. OECD high-income economies have had 9, East Asia and Pacific 8, Latin America and the Caribbean 6, the Middle East and North Africa 4 and South Asia 0.

Of the 60 reforms easing construction permitting, 35 have been legal and

FIGURE 3.3

### Reforms in Sub-Saharan Africa picking up



Note: A reform is counted as 1 reform per reforming economy per year.

Source: Doing Business database.

25 administrative. Legal reforms deal with new building codes, regulations and bylaws that change the standards and organization of construction permitting. Administrative reforms include streamlining project clearances and introducing time limits and online processes. Reforming building codes can be a long, complex exercise, requiring input from many stakeholders. A new building code enacted in 2007 in the Czech Republic was 18 years in the making.

The focus in Eastern Europe and Central Asia, while initially on legal reforms, is shifting to administrative changes. Georgia is a good example. After 3 years of reform it claimed a place in the top 10 on the ease of dealing with construction permits. But long delays remain in the rest of the region—where the process takes 260 days on average, over 100 days more than the average of 154 in OECD high-income economies.

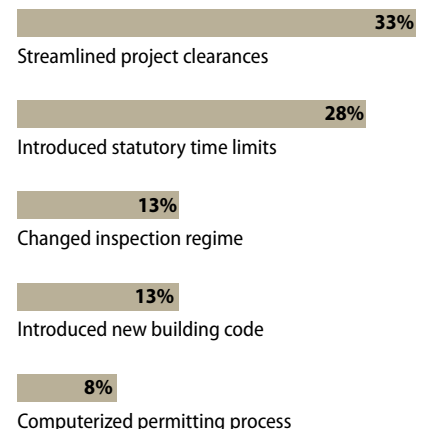
Reformers in Africa started with administrative reforms. They began in earnest in 2006, cutting 4 procedures and reducing delays by 15 days on average. Meanwhile, delays in the rest of the region increased by 26 days. In Nigeria

administrative reforms have cut superfluous procedures and inspections. But builders in Africa still face outdated construction codes or new ones not yet fully implemented. Kenya overhauled all its building regulations. Today it is the only African economy to rank among the top 10 on the ease of dealing with construction permits.

FIGURE 3.4

### Top 5 reform features in dealing with construction permits

Reforms including feature since DB2006 (%)



Note: A reform may include several reform features.

Source: Doing Business database.

### STREAMLINING PROJECT CLEARANCES

The most popular reform feature globally has been to streamline project clearances (figure 3.4). Because building approvals require the technical oversight of multiple agencies, an obvious choice has been to set up a one-stop shop. But this is no easy fix. One-stop shops are designed to integrate services through a single point of contact between building authorities and entrepreneurs. Their success depends on coordination between these authorities and on sound overarching legislation.

Take the experience of Bangladesh. In August 2007 Dhaka's municipal building authority introduced a one-stop shop for building permits. Almost a year later builders still had to visit each agency responsible for approvals, mainly because of inconsistent fire safety regulations. By law, only buildings with more than 10 floors should require fire safety clearance. The fire department insists that the cutoff should be 6 floors, as in the old regulations. Builders can spend 6 months shuttling between agencies, trying to make sense of the inconsistent rules.

### SETTING TIME LIMITS

The second most popular reform feature has been to introduce statutory time limits or silence-is-consent rules. Many economies write time limits into the law in the hope of ending administrative delays. Algeria put a 2-month time limit on issuing building permits in 2006. But obtaining a building permit still takes an average 150 days because of lack of administrative resources. Builders wait, out of fear that their buildings will be demolished if they proceed without a permit.

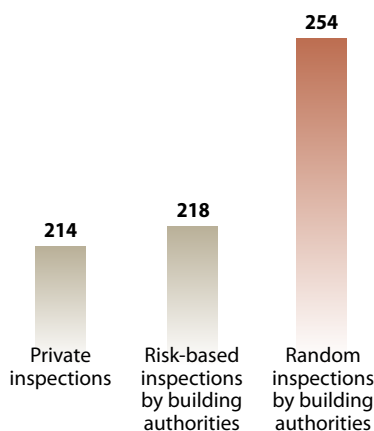
In Colombia a law introduced a silence-is-consent rule in 1997. Ten years later an implementing regulation and a far-reaching public awareness campaign finally made it possible for builders to take control of the process. "Now we can begin construction after 45 working days without any fear. As long as every requirement is complied with, we know the law protects us," says one Colombian architect.

### RATIONALIZING INSPECTIONS

The third most popular reform feature has been to shift from random inspections toward a more risk-based approach, with inspections only at critical stages of construction. Building authorities have traditionally relied on random inspections to ensure compliance. Today only 41 economies—most in Africa, Latin America and the Caribbean and the Middle East and North Africa—still use them. Building authorities have learned that random inspections strain their limited resources and are an inefficient way to ensure building safety (figure 3.5).

Eleven of the top 15 economies on the ease of dealing with construction permits have gone beyond risk-based inspections. Instead, they allow certified professionals or independent agencies to perform inspections during construction. Building authorities usually inspect buildings only after they are complete. Singapore, one of the top performers, delegates control and supervision of the entire construction process to licensed engineers and architects. In Japan more flexible licensing regulations for private inspection companies have increased their numbers and made contracting with them faster and cheaper for builders.

FIGURE 3.5  
**Private and risk-based inspections—  
greater efficiency**  
Average delay for inspections (days)



Source: Doing Business database.

Most EU economies have shifted at least part of inspections to the private domain. Their experience shows that private inspections work best when supported by strong professional associations with well-regulated accreditation mechanisms. A mature insurance industry also helps. In 2007 the Czech Republic introduced a new profession of authorized inspectors. Two professional chambers of architects and engineers and technicians provide a strong base.<sup>3</sup>

### NOTES

1. Bayerisches Staatsministerium des Innern (2002).
2. PricewaterhouseCoopers (2005).
3. Geginat and Malinska (2008).