Dealing with Construction Permits

This topic tracks the procedures, time and costs to build a warehouse—including obtaining necessary licenses and permits, completing required notifications and inspections and obtaining utility connections. The most recent round of data collection was completed in June 2012.

What is Measured?

To measure the ease of dealing with construction permits, Doing Business records the procedures, time and cost required for a small to medium-size business to obtain all the necessary approvals to build a simple commercial warehouse and connect it to water, sewerage and a fixed telephone line (figure 1). The case study includes all types of inspections and certificates needed before, during and after construction of the warehouse. To make the data comparable across 185 economies, the case study assumes that the warehouse is located in the periurban area of the largest business city, is not in a special economic or industrial zone and will be used for general storage activities.

Why it Matters

Why does construction permitting matter?

Good construction regulation matters for public safety. It also matters for the health of the building sector and the economy as a whole. According to a recent study, the construction industry accounts on average for 6.5% of GDP in OECD economies. The building sector is Europe’s largest industrial employer, accounting for about 7% of employment. In the European Union, the United States and Japan combined, more than 40 million people work in construction. It is estimated that for every 10 jobs directly related to a construction project, another 8 jobs may be created in the local economy. Small domestic firms account for most of the sector’s output and most of its jobs.

Source: http://www.doingbusiness.org/data/exploretopics/starting-a-business
Public safety and efficiency

Striking the right balance is a challenge when it comes to construction permitting. 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 (table 1). If procedures are overly complicated or costly, builders tend to proceed without a permit. (3)

By some estimates 60–80% of building projects in developing economies are undertaken without the proper permits and approvals. In the Philippines 57% of new construction is considered illegal. In the Arab Republic of Egypt this share might reach 90% (4). In Georgia before the new permitting process that was initiated in 2005, fewer than 45% of construction projects had legal permits.

Where informal construction is rampant, the public can suffer. Take the case of Nigeria, which lacks an approved building code that sets the standards for construction. Many of the buildings erected do not comply with proper safety standards. Without clear rules, enforcing even basic standards is a daunting task. Structural incidents have multiplied. According to the Nigerian Institute of Building, 84 buildings collapsed in the past 20 years, killing more than 400 people (5).

Overly complicated construction rules also can increase opportunities for corruption. Analysis of World Bank Enterprise Survey data shows that the share of firms expecting to give gifts in exchange for construction approvals is correlated with the level of complexity and cost of dealing with construction permits (6).

Revenue and competitiveness

Economies that score well on the ease of dealing with construction permits tend to have rigorous yet expeditious and transparent permitting processes. Speed matters. A study in the United States shows that accelerating permit approvals by 3 months in a 22-month project cycle could increase construction spending by 5.7% and property tax revenue by 16% (7).

In a 2009 survey of 218 companies in 19 Asia-Pacific Economic Cooperation (APEC) member economies, respondents identified the time and procedures in construction permitting as the biggest “regulatory impediment” to doing business (8). For many entrepreneurs, construction regulations are a critical factor when deciding where to establish their businesses. A recent competitiveness report by KPMG indicated that construction costs and the permitting process were among the top 20 factors in determining the location of a start-up in the United States (9).

**Doing Business Reforms**

In 2011/12, 20 economies made it easier to comply with the formalities required to build a warehouse up to the moment it can be occupied and used as collateral. Most streamlined permitting procedures (table 2).

In the past 8 years Doing Business recorded 145 reforms making it easier to deal with construction permits in 83 economies (figure 2). Many opted for low-cost administrative reforms requiring little or no change in regulation. Others went further, introducing or amending legislation. As a result, the average time to

**TABLE 2** Who made dealing with construction permits easier in 2011/12—and what did they do?

<table>
<thead>
<tr>
<th>Feature</th>
<th>Economies</th>
<th>Some highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Streamlined procedures</td>
<td>Burundi; China; Costa Rica; Netherlands; Panama; Peru; Portugal; Russian Federation</td>
<td>Burundi eliminated the requirement to obtain a clearance from the Ministry of Health and reduced the cost of the gynecological study.</td>
</tr>
<tr>
<td>Reduced time for processing permit applications</td>
<td>Benin; Burundi; Greece; India; Malaysia; Norway; Portugal</td>
<td>India implemented strict time limits at the municipality for processing building permits.</td>
</tr>
<tr>
<td>Introduced or improved one-stop shop</td>
<td>Brunei Darussalam; Malaysia; Taiwan; China</td>
<td>Taiwan, China, introduced a risk-based, self-regulatory inspection system and improved operational features of its one-stop shop for building permits.</td>
</tr>
<tr>
<td>Reduced fees</td>
<td>Republic of Congo; Guinea; Montenegro</td>
<td>The Republic of Congo reduced the cost of first-time registration of the building.</td>
</tr>
<tr>
<td>Improved electronic platforms or online services</td>
<td>Costa Rica; Netherlands</td>
<td>The Netherlands merged several types of approvals and implemented online application systems.</td>
</tr>
<tr>
<td>Introduced risk based approvals</td>
<td>Guatemala; Turkey</td>
<td>Guatemala introduced a risk-based approval system for building permits.</td>
</tr>
</tbody>
</table>

Source: http://www.doingbusiness.org/data/exploretopics/starting-a-business
deal with construction formalities fell from 193 days to 185, and the median cost from 108% of income per capita to 103% (figure 3).

These gains over the years illustrate what is possible when construction regulation moves toward global good practices—such as coherent and transparent rules and efficient processes that include the use of one-stop shops and risk-based building approvals.

Good Practices

- See good practices for other topics
- Setting rules and ensuring that they are clear and coherent
- Using one-stop shops to improve coordination
- Differentiating projects by risk

Setting rules and ensuring that they are clear and coherent

Efficient building regulation starts with establishing a coherent body of rules that defines what is required from builders. Today 135 economies around the world—including 18 joining this group in the past 8 years—have a comprehensive set of building rules, in the form of either a national building code or a law that most fully governs the construction process (table 3). Ensuring clarity in these rules is important. When regulations lack clarity and may be subject to broad interpretation, there is a risk that builders and authorities will become confused about how to proceed. This can lead to unnecessary delays, disputes and uncertainty. The adverse effects of ambiguous building regulations can become especially apparent in urban settings as more and more people move to cities and the need for construction of new buildings grows. Since 2007, 50% of the world’s population has been living in urban areas, generating more than 80% of global GDP. By 2050 the urban population share is expected to reach 70%.1

One example of confusing regulation is the Solomon Islands. The country’s national building code has been in preliminary draft form since April 1989. The parliament has not yet enacted the code into law.

Source: http://www.doingbusiness.org/data/exploretopics/starting-a-business
because of differences on how to proceed. In the absence of clear rules, building inspectors can potentially impose additional technical requirements on builders. The ability to engage in such practices can create conditions for some inspectors to extort unofficial payments.

Yet having an approved building code does not guarantee uniform implementation. Local authorities may interpret the code differently. The Philippines has had a national building code since 1977, but rules vary substantially among cities. Taguig and Pasig are both part of the Metro Manila area, but their interpretation of which documents need to be notarized and which kinds of buildings need certain inspections is very different. As a result, according to a recent subnational Doing Business report, completing all construction permitting formalities takes 25 procedures and 85 days for an entrepreneur in Taguig but 36 procedures and 148 days for one in Pasig.(3)

Besides being clear, building rules also need to be adaptable so that they can keep up with economic and technological change—particularly important in the light of growing environmental concerns (box 1). New Zealand chose an effective approach: performance-focused building codes set targets and overall technical standards but do not regulate how to achieve those standards. This allows room for innovation in building techniques.

Overly precise provisions make it challenging to keep regulation up to date. Some building codes specify what materials can be used in construction. This seems to make sense. The materials are tested for safety, and their technical parameters mandated in the code. But this approach works only when codes are regularly updated. And they rarely are in the transition economies of Eastern Europe and Central Asia, where such rules are most common. Construction norms in Ukraine still refer to specific materials that used to be produced in the former Soviet Union. Today these materials are no longer available, so no one can fully comply with the regulations. Flexible rules that are clear and coherent are fundamental to maintaining a safe and vibrant construction sector.

**Using one-stop shops to improve coordination**

Before a building plan is approved, appropriate clearances are needed to ensure quality and safety. Often several agencies are involved. To prevent overlap and ensure efficiency, many economies have opted to put the agencies in one location. These one-stop shops improve the organization of the review process—not by reducing the number of checks needed but by better coordinating the efforts of different agencies. That way more resources can be devoted to safety checks rather than to multiple interactions between the entrepreneur and the various agencies.

In 2010/11 Mauritania and Taiwan, China, introduced one-stop shops while Morocco made improvements to the one created in 2006. Yet today only 31 economies around the world have some kind of one-stop shop for construction permitting, including the 18 that established or enhanced one in the past 8 years. One successful example is in Hong Kong SAR, China. In 2009 the local government, as part of its “Be the Smart Regulator” program, merged 8 procedures involving 6 different agencies.
and 2 private utilities through a one-stop center. A single window facilitates interactions for customers—and today only 6 procedures are needed to deal with construction permits (table 4).

In other economies too, more efficient procedures allowed agencies to process greater volumes of permit approvals and increased client satisfaction. In 2006 Burkina Faso was among the 10 economies with the most complex requirements in the world. Not surprisingly, a survey that year found that more than 23% of local companies identified licenses and permits generally as a major constraint to doing business in the economy. To help address this concern, Burkina Faso opened a one-stop shop for construction permits, the Centre de Facilitation des Actes de Construire, in May 2008. A new regulation merged 32 procedures into 15, reduced the time required from 226 days to 122 and cut the cost by 40%.

### Differentiating projects by risk

Not all building projects are associated with the same social, cultural, economic or environmental risks. The construction of a hospital or skyscraper cannot be compared with the construction of a 2-story commercial warehouse. Efficient governments have implemented rigorous yet differentiated construction permitting processes to treat buildings according to their risk level and location.

Simple or low-risk buildings require less documentation than more complex structures and can be approved faster. This saves time for both entrepreneurs and authorities and allows them to direct their efforts and resources more efficiently. Worldwide, the main criteria used to classify a construction project by its potential risk are based on the building’s use, location and size. Today 86 economies have a risk-differentiated approach, including the 17 that established one in the past 8 years.

Armenia and Paraguay introduced risk-based systems in 2010/11. Authorities in Yerevan raised the size threshold for buildings that require environmental impact assessments to 1,500 square meters. This change led to time savings of 30 days for builders with projects below that threshold. The municipality of Asunción introduced different review systems for buildings that depend on their size and use. Those of 1,500 square meters or less that will be used for simple commercial activities are now classified as “simple structures” and can undergo an expedited review process.

---

**Source:** [http://www.doingbusiness.org/data/exploretopics/starting-a-business](http://www.doingbusiness.org/data/exploretopics/starting-a-business)
The German state of Bavaria introduced a differentiated permitting approach in 1994. For low-risk projects the designing architects must show proof of their qualifications and assume liability for the construction. For medium-risk projects an independent, certified appraiser must approve the plans. Only high-risk, complex projects are fully reviewed by building authorities. By 2002 builders had saved an estimated €154 million in building permit fees that would have been paid to the government under the pre-1994 rules, and building authorities had 270 fewer employees on their payroll. The approach has spread to the rest of Germany.

The Canadian city of Toronto revamped its construction permitting process in 2005 by introducing time limits for different stages of the process and presenting a unique basic list of requirements for each project. Later it provided for electronic information and risk-based approvals with fast-track procedures ("Commercial Xpress" for commercial buildings and "Residential Fast Track" for residential buildings).

The Republic of Korea introduced risk-based approvals in 2005/06. In May 2006 small construction projects were allowed to choose a fast-track option. This allowed regulators to focus their time and resources on more complex projects. The reform was timely because it coincided with higher demand for construction: between 2004 and 2009 the number of applications for commercial building permits in Seoul increased from 1,521 to 3,895.

---------------

6. Information provided by the Seoul Metropolitan Government.

Frequently Asked Questions
- What does the dealing with construction permits measure?
- What type of company is considered?
- What type of construction project measured?
- How does Dealing with Construction Permits indicator count procedures?
- How does the Dealing with Construction Permits indicator measure time?
- How are electronic procedures (e.g. online) recorded?

Source: http://www.doingbusiness.org/data/exploretopics/starting-a-business
What does the dealing with construction permits measure?
The Dealing with Construction Permits indicator records all procedures required for a business in the construction industry to build a standardized warehouse. These procedures include submitting all relevant project-specific documents (for example, building plans and site maps) to the authorities; obtaining all necessary clearances, licenses, permits and certificates; completing all required notifications; and receiving all necessary inspections. Doing Business also records procedures for obtaining connections for water, sewerage and a fixed landline. Procedures necessary to register the property so that it can be used as collateral or transferred to another entity are also counted. The survey divides the process of building a warehouse into distinct procedures and calculates the time and cost of completing each procedure. The ranking on the ease of dealing with construction permits is the simple average of the percentile rankings on its component indicators.

What type of company is considered?
The Dealing with Construction Permits indicator considers a limited liability construction company (called BuildCo) that operates in the economy’s largest business city, is 100% domestically and privately owned, has 5 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 professional experience necessary to obtain construction permits and approvals), has at least 1 employee who is a licensed architect and registered with the local association of architects, and 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).

What type of construction project measured?
The Dealing with Construction Permits indicator records all procedures required for a business in the construction industry to build a standardized warehouse. The warehouse will be used for general storage activities (such as storage of books or stationery) will not be used for any goods requiring special conditions (such as food, chemicals or pharmaceuticals), has 2 stories, both above ground, with a total surface of approximately 1,300.6 square meters (14,000 square feet), each floor is 3 meters (9 feet, 10 inches) high, is not located in a special economic or industrial zone, is located on a land plot of 929 square meters (10,000 square feet) that is 100% owned by BuildCo and is accurately registered in the cadastre and land registry.

How does Dealing with Construction Permits indicator count procedures?
A procedure is defined as any interaction of the company founders with external parties (for example, government agencies, lawyers, utility companies or external private professionals). Procedures that must be completed in the same building but in different offices are counted as separate procedures. If BuildCo has to visit the same office several times for different sequential procedures, each is counted separately. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). A procedure is considered completed once the company has

Source: http://www.doingbusiness.org/data/exploretopics/starting-a-business
received the final document, such as the building permit or zoning certificate. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen.

**How does the Dealing with Construction Permits indicator measure time?**
Time is recorded in calendar days. The measure captures the median duration that construction professionals indicate is necessary in practice to complete a procedure with minimum follow-up with government agencies and no extra payments.

**How are electronic procedures (e.g. online) recorded?**
Each electronic procedure is counted separately. If 2 procedures can be completed through the same website but require separate filings, they are counted as 2 procedures.

Note: Because the ease of doing business index now includes the getting electricity indicators, procedures, time and cost related to obtaining an electricity connection were removed from the dealing with construction permits indicators.