

# Dealing with construction permits

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

The devastating earthquake in Port-au-Prince in January 2010 left more than 1.3 million Haitians homeless. Virtually every building in the capital was damaged or destroyed. Haiti lacks a comprehensive national building law and seismic design code, and construction in Port-au-Prince had followed inadequate standards and building practices. Just a month later Chile was rocked by an earthquake 500 times as powerful as the one in Haiti. The earthquake damaged 750,000 homes. Many believe the outcome could have been worse. Chile's building codes and risk-based building rules have been regularly updated since their adoption in 1931.

Regulation of construction is critical to protect the public. But it needs to be

TABLE 4.1

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

Easiest	RANK	Most difficult	RANK
Hong Kong SAR, China	1	Malawi	174
Singapore	2	Burundi	175
St. Vincent and the Grenadines	3	Serbia	176
Belize	4	India	177
New Zealand	5	Tajikistan	178
Marshall Islands	6	Ukraine	179
Georgia	7	Tanzania	180
St. Kitts and Nevis	8	China	181
Maldives	9	Russian Federation	182
Denmark	10	Eritrea <sup>a</sup>	183

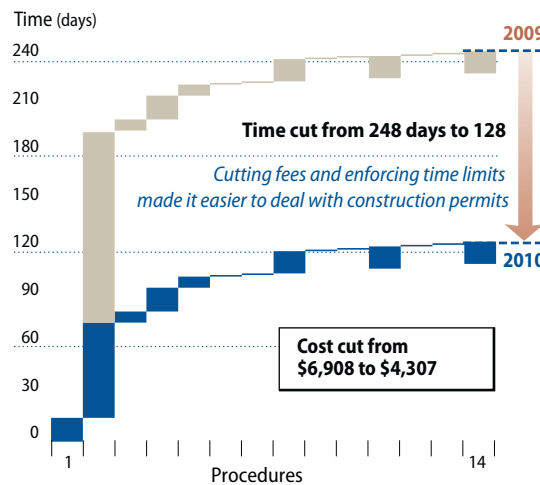
Note: Rankings are the average of the economy's rankings on the procedures, time and cost to comply with formalities to build a warehouse. See Data notes for details.

a. No practice.

Source: Doing Business database.

FIGURE 4.1

## The Democratic Republic of Congo made dealing with construction permits faster and cheaper



### Who improved the most in dealing with construction permits?

1. Congo, Dem. Rep.
2. Paraguay
3. Saudi Arabia
4. Croatia
5. Mexico
6. Benin
7. Kazakhstan
8. Romania
9. Vietnam
10. Peru

Source: Doing Business database.

efficient, to avoid excessive constraints on a sector that plays an important part in every economy (table 4.1). According to a recent OECD study, the construction industry accounts on average for 6.5% of GDP.<sup>1</sup> 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.<sup>2</sup> Small domestic firms account for most of the sector's output and most of its jobs.

Some of the jobs have been lost as a result of the global economic crisis. Between December 2007 and January 2010, 1.9 million construction workers in the United States lost their jobs.<sup>3</sup> According to the ILO, 5 million jobs in

the global construction industry disappeared in 2008 alone.<sup>4</sup>

In 2009/10, 19 economies made it easier to deal with construction permits (table 4.2). Sub-Saharan Africa accounted for the most reforms of the construction permitting process, followed by Eastern Europe and Central Asia. For the first time a conflict-affected economy, the Democratic Republic of Congo, improved the ease of dealing with construction permits the most (figure 4.1). A regulatory reform program streamlined construction permitting in Kinshasa, reducing the time to deal with construction permits from 248 days to 128 and the average cost from \$6,908 to \$4,307.

Doing Business measures the procedures, time and cost for a small to medium-size business to obtain all the necessary approvals to build a simple commercial warehouse and connect it to basic utility services (figure 4.2). Such in-

FIGURE 4.2

## What are the time, cost and number of procedures to comply with formalities to build a warehouse?

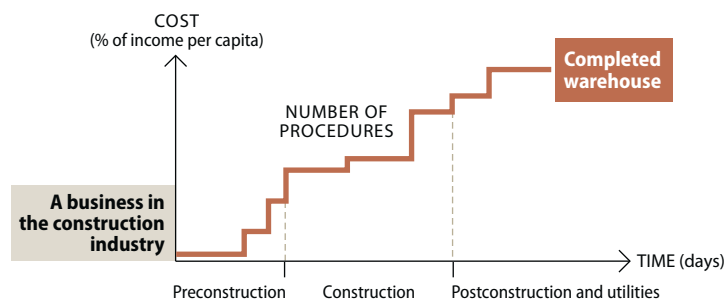
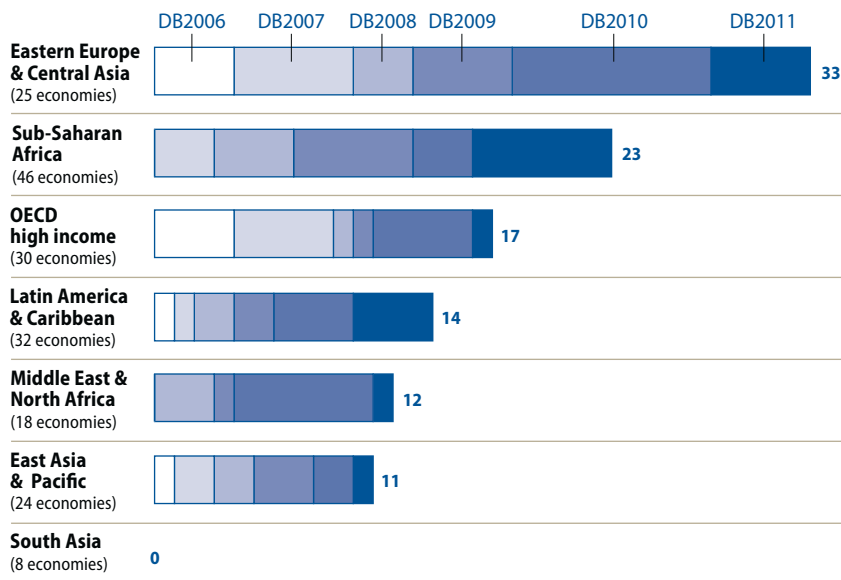


FIGURE 4.3

**Eastern Europe and Central Asia leads in number of reforms in construction permitting**Number of *Doing Business* reforms making it easier to deal with construction permits by *Doing Business* report year

Note: A *Doing Business* reform is counted as 1 reform per reforming economy per year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2011 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.

Source: *Doing Business* database.

dicators can be telling. A recent competitiveness report by KPMG indicated that construction costs and the permitting process were among the top 20 factors determining the location of a start-up in the United States.<sup>5</sup>

**WHAT ARE THE TRENDS?**

In an effort to ensure building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. Today an entrepreneur spends on average 202 days and

683% of income per capita to complete all required procedures, down from 220 days and 839% of income per capita in 2005. OECD high-income economies have streamlined their systems the most. Obtaining approvals for building a simple warehouse now takes on average 16 procedures, 166 days and 62.1% of income per capita.

A large gap remains for much of the rest of the world. Authorities in Eastern Europe and Central Asia require the most procedures to obtain construction approvals, 22 on average. Delays are common in Sub-Saharan Africa. To comply with formalities takes longer than 2 months there than in OECD high-income economies. And in South Asia an entrepreneur has to pay on average 2,039% of income per capita in permitting fees.

**MORE REFORMS IN EASTERN EUROPE AND CENTRAL ASIA**

Eastern Europe and Central Asia was the region with the most reforms of construction permitting in the past 6 years (figure 4.3). Twenty economies implemented 33 new regulations, mainly to revamp outdated construction formalities from the communist era. And the region that used to have the longest average

TABLE 4.2

**Who made dealing with construction permits easier in 2009/10—and what did they do?**

Feature	Economies	Some highlights
Reduced time for processing permit applications	Benin, Burkina Faso, Democratic Republic of Congo, Croatia, Hungary, Kazakhstan, Mexico, Peru, Romania, Rwanda, Sierra Leone	In Benin a new commission to process building permit applications reduced the average time for dealing with construction permits from 410 days to 320.
Streamlined procedures	Côte d'Ivoire, Croatia, Kazakhstan, Mali, Mexico, Saudi Arabia, Ukraine	Ukraine cut 9 of 31 procedures, reducing time by a third and cost by 6%.
Adopted new building regulations	Croatia, Hungary, Kazakhstan, Romania	Amendments to Romania's construction law and building regulations cut time by 15 days and cost by 12.9%.
Reduced fees	Burkina Faso, Democratic Republic of Congo, Rwanda, Vietnam	Vietnam's new registration fee for completed buildings cut total cost by 43%.
Introduced or improved one-stop shop	Kazakhstan, Paraguay, Russian Federation, Saudi Arabia	In Paraguay a new single-window approach in the municipality cut time from 291 days to 179.
Introduced risk-based approvals	Kazakhstan, Mali	Mali's new simplified environmental impact assessment for noncomplex commercial buildings cut time by 9% and cost by 32.7%.
Improved electronic platforms or online services	Colombia	Colombia improved its electronic verification of prebuilding certificates, which cut 1 procedure.

Source: *Doing Business* database.

TABLE 4.3  
**Good practices around the world in making it easy to deal with construction permits**

Practice	Economies <sup>a</sup>	Examples
Using risk-based building approvals	84	Colombia, Germany, Mauritius, Singapore
Having an approved building code	43	Croatia, Kenya, New Zealand, Republic of Yemen
Having a one-stop shop	22	Bahrain, Chile, Georgia, Hong Kong SAR (China)

a. Among 183 economies surveyed.

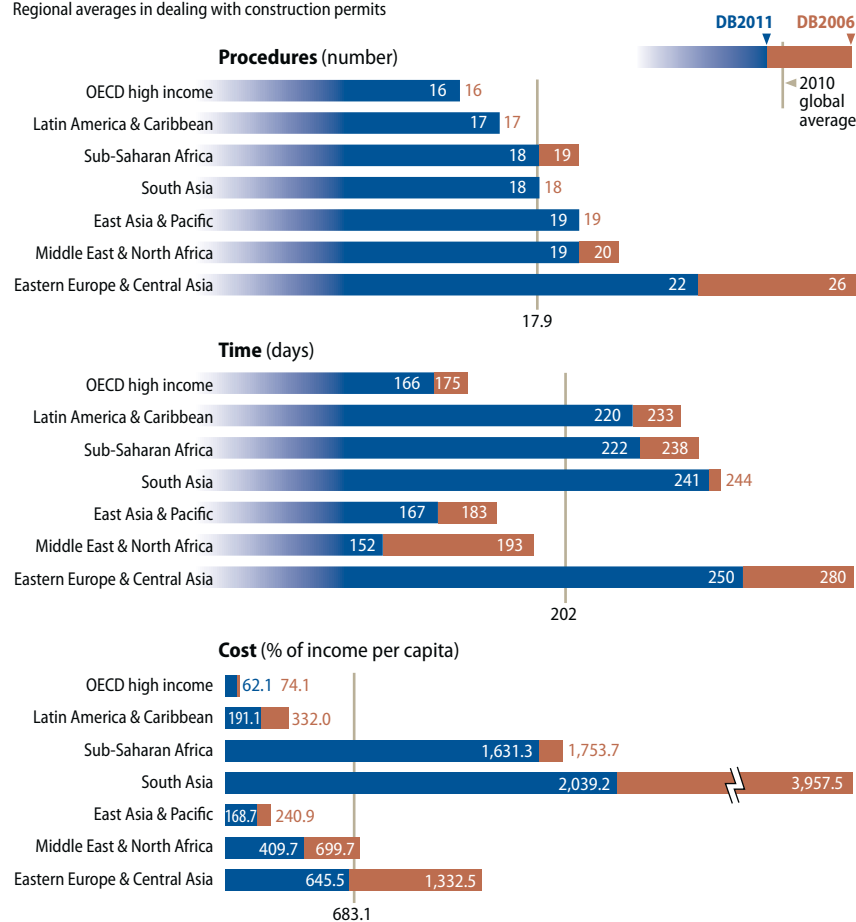
Source: Doing Business database.

delays achieved significant time savings. These changes reduced the average time for dealing with construction formalities by 30 days, from 280 to 250 (figure 4.4). Performance varies within the region. Georgia, after 6 years of steady improvements, has the most efficient permitting system. To comply with formalities in Tbilisi takes 98 days, far fewer than the regional average of 250 days or the Albanian one of 331.

FIGURE 4.4

### Biggest time savings in the Middle East and North Africa

Regional averages in dealing with construction permits



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2011 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. Zimbabwe is not included in the samples due to the impact of inflation on the average cost estimates.

Source: Doing Business database.

### COST STILL HIGH IN AFRICA

In Sub-Saharan Africa 23 reforms making it easier to deal with construction permits were implemented in the past 6 years. Burkina Faso set up a new one-stop shop, Kenya introduced risk-based approvals, Liberia reduced fees, and Benin, the Democratic Republic of Congo, Mali and Rwanda streamlined permitting procedures. These improvements have reduced permitting delays in the region by 16 days. More can be done.

The cost remains the second highest globally, at 1,631% of income per capita on average. The high cost largely reflects high fees to connect to water, telephone and electricity service.

### ONLINE IN THE MIDDLE EAST AND NORTH AFRICA...

Economies in the Middle East and North Africa that made dealing with construction permits easier focused on introducing online services and electronic platforms. This trend was initiated in the early 1990s by some Gulf Cooperation Council countries (Bahrain, Qatar, Saudi Arabia and the United Arab Emirates). In Bahrain, where complying with building formalities takes the least time in the region, applicants can download forms, submit applications and building plans, track the status of their applications and pay bills—all online.<sup>6</sup> The changes in the region reduced the average permitting time by 41 days, making the Middle East and North Africa the fastest globally.

### ...AND IN EAST ASIA

The Middle East and North Africa was not the only region where technology was used to make construction permitting more efficient. In East Asia and the Pacific, Singapore and Hong Kong SAR (China) converted their one-stop shops for building permits to online systems in 2008. In Singapore the Building and Construction Authority provides easy access to relevant information and allows online submission of all paperwork. In Hong Kong SAR (China), while the application process still has to be completed in person, all application forms and zoning maps are now online.

### WHAT HAS WORKED?

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 (table 4.3). Construction is one of them.

TABLE 4.4  
Who makes dealing with construction permits easy—and who does not?

<b>Procedures (number)</b>			
<b>Fewest</b>		<b>Most</b>	
Denmark	6	Azerbaijan	31
Hong Kong SAR, China	7	Brunei Darussalam	32
New Zealand	7	Guinea	32
Vanuatu	7	Poland	32
Sweden	8	El Salvador	34
Maldives	9	Kazakhstan	34
St. Lucia	9	Czech Republic	36
Georgia	10	China	37
Grenada	10	India	37
Marshall Islands	10	Russian Federation	53
<b>Time (days)</b>			
<b>Fastest</b>		<b>Slowest</b>	
Singapore	25	Brazil	411
Korea, Rep.	34	Nepal	424
United States	40	Suriname	431
Bahrain	43	Russian Federation	540
Colombia	50	Côte d'Ivoire	592
Vanuatu	51	Lesotho	601
Marshall Islands	55	Cyprus	677
Solomon Islands	62	Cambodia	709
United Arab Emirates	64	Zimbabwe	1,012
New Zealand	65	Haiti	1,179
<b>Cost (% of income per capita)</b>			
<b>Least</b>		<b>Most</b>	
Qatar	0.8	Niger	2,352
St. Kitts and Nevis	4.8	Zambia	2,454
Palau	5.1	Congo, Dem. Rep.	2,692
Trinidad and Tobago	5.1	Tanzania	2,756
Brunei Darussalam	6.7	Russian Federation	4,141
St. Vincent and the Grenadines	7.0	Chad	6,684
Malaysia	7.9	Burundi	7,048
Thailand	9.5	Zimbabwe	8,021
Hungary	9.8	Afghanistan	11,355
Dominica	11.0	Liberia	29,574

Source: Doing Business database.

### FOCUSING ON RESULTS

Efficient regulation starts with a uniform building code—and its uniform implementation. Forty-three economies globally have adopted uniform construction rules. Most commonly, a central authority outlines the rules and local authorities implement them. When regulations are not organized and applied coherently, builders and authorities can become confused about how to proceed. This often leads to delays, uncertainty and disputes.

In Nigeria a new national building code was drafted in 2006, but it has yet to be enforced. Some Nigerian states have started implementing several provisions of the code, such as by amending local urban and regional planning laws to require new inspections and certificates. Others have not. The result is wide variation across states—confusing for builders with projects in more than one.<sup>7</sup>

Building rules also have to be adaptable so that they can keep up with economic and technological change—particularly important in the light of

growing environmental concerns. 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.

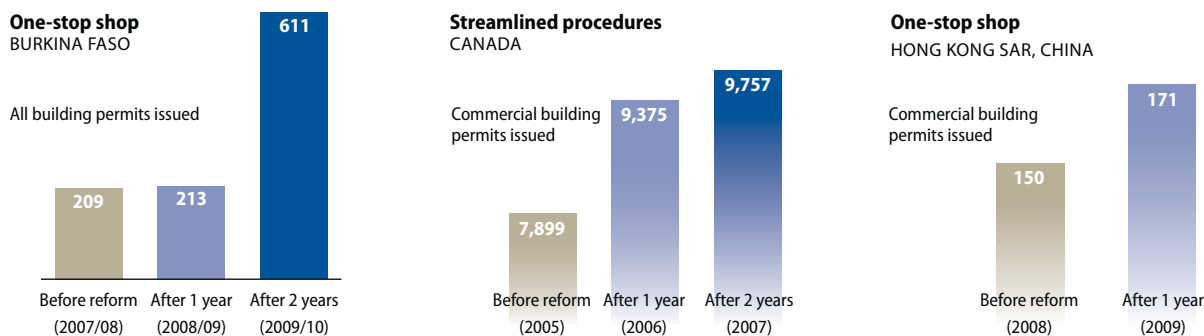
If provisions are too precise, this creates a challenge for keeping regulation up to date. Some building codes specify what materials can be used in construction. This seems to make sense. The materials are tested for safety, and their technical parameters mandated in the code. But this approach works only when codes are up to date. 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 materials that used to be produced in the Soviet Union. Today these materials are no longer available, so no one can fully comply with the regulations.

### 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 paperwork.

There are different ways to organize a one-stop shop. In Paraguay authorities moved professionals from 7 municipal departments into 1. Since early 2010 Burkina Faso has held periodic meetings of all approving bodies to speed up clearances. In 2009 the local government in Hong Kong SAR (China), 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 interaction for customers. Globally, 22 economies

FIGURE 4.5

**Taking advantage of one-stop shops and streamlined procedures in construction permits**

Source: Burkina Faso, Centre de Facilitation des Actes de Construire (CEFAC); Toronto City Building Department; Hong Kong SAR Government, Hong Kong Economic and Trade Office, Washington, D.C.

coordinate agencies involved in approving construction permits through some form of one-stop shop.

**DIFFERENTIATING PROJECTS BY RISK**

Not all buildings involve the same social, cultural, economic or environmental impacts. A hospital or skyscraper cannot be compared with 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. Kazakhstan recently implemented differentiated approval procedures for complex and noncomplex projects, allowing a fast-track procedure for projects under 1,000 square meters. Belarus, Canada, Colombia and Germany are among the 84 economies that have functioning fast-track application processes for small commercial buildings. After Bavaria implemented differentiated permitting approaches for low- and high-risk projects, builders saved an estimated €154 million in building permit fees in a year, while building authorities needed 270 fewer employees on their payroll.<sup>8</sup>

**WHAT ARE SOME RESULTS?**

Over the past 6 years *Doing Business* recorded 110 reforms streamlining construction permitting procedures worldwide. Governments, the private sector and citizens alike are starting to see benefits.

**GREATER CAPACITY**

More efficient systems can prepare governments to take advantage of a pickup in construction activity. Look at Colombia. In 1995 obtaining building authorizations in Bogotá took 3 years on average. Today it takes about a month. This is thanks to a broad program of reforms targeting the construction permitting process. The government transferred the administration of building permits to the private sector, created a risk-based approval process and introduced electronic verification of the ownership status of buildings and land. The changes were timely, because construction activity took off. In 1996 the approved building construction area was 11.3 million square meters. In 2007 it was 19.2 million—70% more. Meanwhile, the construction sector grew from 6% of GDP to 7%.<sup>9</sup>

Georgia's story is similar. The government overhauled the construction permitting system between 2005 and 2009. Among other things, it created a one-stop shop and gradually consolidated 25 procedures into 10, reducing the time to comply with formalities from 195 days to 98. Today construction is among

the most dynamic and rapidly growing sectors of the economy. The construction area in the capital tripled between 2004 and 2007, from 463,000 square meters to 1.5 million. During the same period the construction sector expanded from 6.3% of GDP to 11%.<sup>10</sup>

In other economies too, more efficient approval 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 as a major constraint to doing business in the country.<sup>11</sup> To address this concern, a one-stop shop for construction permits, the Centre de Facilitation des Actes de Construire, was opened 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%. Entrepreneurs took note. From May 2009 to May 2010 611 building permits were granted in Ouagadougou, up from an average of about 150 a year in 2002–06 (figure 4.5).<sup>12</sup> Another firm survey, conducted in 2009, showed that the share of entrepreneurs considering the construction permitting process to be problematic had dropped by 6 percentage points in the previous 3 years.<sup>13</sup>



Hong Kong SAR (China), after finishing 2 years of regulatory changes to reengineer its construction permitting system, also saw an increase in volume. The number of commercial building permits grew by 14%, from 150 in 2008 to 171 in 2009—despite the global economic downturn.

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). Between 2005 and 2007 the number of commercial building permits increased by 24% and between 2005 and 2008 the construction value of new commercial buildings rose by 84%.<sup>14</sup>

#### LOWER COST—FOR BUILDERS AND REGULATORS

Effective and efficient use of information technology can reduce the regulatory cost of construction. Jurisdictions across the United States are using information technology to increase efficiency. More than 500 now use an advanced e-permit processing system. Introduced since 2003, the system has reduced the time that professionals in the construction industry spend on permits by 30–40%. Interactive voice response systems enable customers to use a touch-tone telephone to connect with a jurisdiction’s database of building code and land management applications, reducing the time to schedule and conduct inspections from 2–3 days to less than 24 hours. Mobile field inspection technology has increased the number of inspections per day by 25% and reduced contractors’ downtime while waiting for inspections and their results by 20%. More than 20 U.S. cities use e-plan review. This system of online submission of building plans has shortened the review period by 40%, eliminated the risk of lost plans and re-

duced by 80% the number of in-person visits made to building authorities by out-of-state owners and architects.<sup>15</sup>

Reducing delays benefits more than just builders and owners. A study in the United States estimates that accelerating permit approvals by 3 months in a 22-month project cycle could increase construction spending by 5.7% and property tax revenue for local governments by 16%.<sup>16</sup>

#### GREATER SAFETY AND TRANSPARENCY

By some estimates 60–80% of building projects in developing economies are undertaken without the proper permits and approvals.<sup>17</sup> In the Philippines 57% of new construction is considered illegal. In Egypt this share might reach 90%.<sup>18</sup> In Georgia before the new permitting process that was initiated in 2005, fewer than 45% of construction projects had legal permits. If procedures are overly complicated or costly, builders tend to proceed without a permit. This leads to revenue losses for local authorities, limitations on access to credit for the builders and owners and the loss of formal jobs in the construction sector.<sup>19</sup>

Overly complicated construction rules also can increase opportunities for corruption. World Bank Enterprise Survey data show 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.<sup>20</sup> According to a 2005 survey conducted in 15 countries by Transparency International, entrepreneurs perceive construction as one of the most corrupt industries, surpassing arms and defense, oil and gas, real estate and mining.<sup>21</sup>

Good regulation ensures compliance with the standards and protects the public while making the permitting process transparent and affordable for construction companies. Where informal construction is rampant, the public can suffer. Nigeria, like Haiti, lacks a uniform 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.<sup>22</sup>

1. OECD (2010).
2. PricewaterhouseCoopers (2005).
3. U.S. Bureau of Labor Statistics, “Employment Situation,” January 2010, <http://www.bls.gov/>.
4. ILO (2009).
5. KPMG (2009).
6. Bahrain, Ministry of Municipalities and Agricultural Affairs, <http://websrv.municipality.gov.bh/>.
7. World Bank (2010a).
8. Bayerisches Staatsministerium des Innern (2002).
9. Espinosa-Wang (forthcoming).
10. IFC (2008a).
11. World Bank Enterprise Surveys (<http://www.enterprisesurveys.org/>).
12. Information provided by Burkina Faso’s Centre de Facilitation des Actes de Construire.
13. World Bank Enterprise Surveys (<http://www.enterprisesurveys.org/>).
14. According to information provided by the City of Toronto’s Office of the Chief Building Official, the construction value of commercial buildings (excluding industrial and institutional buildings) rose from Can\$1.56 billion in 2005 to Can\$2.87 billion in 2008.
15. Information available at <http://www.natlpartnerstreamline.org/>.
16. PricewaterhouseCoopers (2005).
17. De Soto (2000).
18. De Soto (2000).
19. Moullier (2009).
20. World Bank (2009d).
21. Kenny (2007).
22. Agence France Presse, “Nigeria Approves Building Code,” News24.com, August 3, 2006, <http://www.news24.com/>. Because many cases go unreported, the actual figure is probably higher.