

# Dealing with construction permits



Sound regulation of construction helps protect the public from faulty building practices. Besides enhancing public safety, well-functioning building permitting and inspection systems can also strengthen property rights and contribute to the process of capital formation.<sup>1</sup> But if procedures are too complicated or costly, builders tend to proceed without a permit.<sup>2</sup> By some estimates 60–80% of building projects in developing economies are undertaken without the proper permits and approvals.<sup>3</sup> And because the construction permitting process generally involves licensing requirements from several different agencies, those using the process are exposed to different bureaucracies, which creates opportunities for rent seeking.

One way to adopt sound regulation is by implementing risk-based inspection systems. Such systems can help ensure a safe, well-functioning approach that does not impose overly burdensome requirements on less complex buildings. Economies at all income levels are implementing these systems to account for the varying risk levels of different buildings.<sup>4</sup> In fact, there has been growing awareness in the construction industry about the advantages of a system in which less risky structures are subject to fewer inspections than more complicated ones, which might need more inspections at various stages of construction.

The United Kingdom started modifying its building control system in 2007 to add a risk-based component. The goal was to develop a risk assessment tool for building inspectors and move from strict public enforcement toward a combination of public and private practices. In 2009 the Department for Communities and Local Government partnered with the private sector to develop a risk assessment tool.<sup>5</sup>

High-risk projects such as hotels and movie theaters would have at least as many inspections as low-risk projects at key stages of construction—and in most cases would require additional inspections to comply with safety regulations. The use of risk assessment has improved the inspection system. Since 2008 it has eliminated 8 procedures and 49 days from the process of obtaining a construction permit and connecting to utilities, as measured by *Doing Business*.<sup>6</sup>

Introducing a risk-based inspection system is not the only route to sound regulation. Economies continually working to improve their building regulatory systems have also reformed in many other areas. Some are taking advantage of increasingly sophisticated technological systems that enhance not only the efficiency of the construction permitting process but also its transparency. And some are adopting performance-based building codes that focus more on outcomes and on demonstrating compliance with performance requirements.<sup>7</sup> Beyond these elements, qualification requirements for inspectors, liability regimes for faulty construction, conflict resolution systems, information technology and other factors can all help strengthen building regulatory systems.

To measure the ease of dealing with construction permits, *Doing Business* records the procedures, time and cost required for a small or medium-size business to obtain the approvals needed to build a simple commercial warehouse and connect it to water, sewerage and a fixed telephone line. That includes all the inspections and certificates needed before, during and after construction of the warehouse. To make the data comparable across 189 economies, it is assumed that the warehouse is in the periurban area of

- Dealing with construction permits is easiest in Hong Kong SAR, China, where it takes 6 procedures and 71 days and costs 15.4% of income per capita to comply with requirements for building a storage warehouse and connecting it to water, sewerage and a fixed telephone line.
- *Doing Business* recorded 24 reforms making it easier to deal with construction permits worldwide between June 2012 and June 2013 and 109 over the past 5 years.
- Ukraine made the biggest improvement in the ease of dealing with construction permits in the past year.
- Ukraine has also made the fastest progress toward the frontier in regulatory practice in construction permitting since 2009.
- Among regions, Europe and Central Asia has made the biggest improvements in the ease of dealing with construction permits since 2009.
- Streamlining processes and implementing risk-based approval systems were among the most common features of construction permitting reforms in the past 5 years.

For more information on good practices and research related to dealing with construction permits, visit <http://www.doingbusiness.org/data/exploretopics/dealing-with-construction-permits>. For more on the methodology, see the section on dealing with construction permits in the data notes.

the largest business city, is not in a special economic or industrial zone and will be used for general storage.

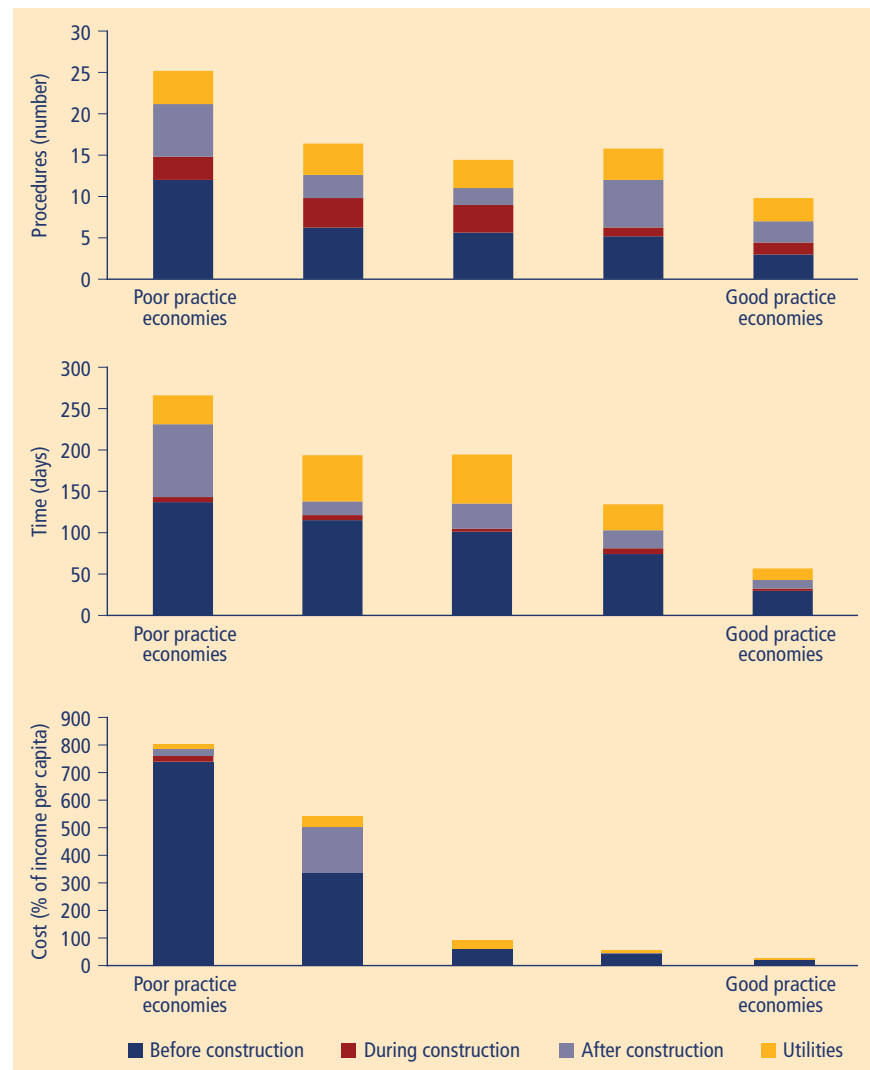
While *Doing Business* identifies burdensome practices in many economies, other hurdles are not captured by the data. For example, *Doing Business* does not address the extent to which the necessary permits may include provisional or conditional permits—which in some economies can be used as a mechanism for the authorities to impose further conditions or extract further payments once construction is under way or completed.

In economies where it is easy to obtain construction permits, many preconstruction procedures—such as clearances and approvals—are streamlined, often through a one-stop shop. Alternatively, preliminary clearances are not required and construction companies can apply for building permits when submitting the required blueprints. The average time to complete preconstruction procedures in the 5 top-ranked economies is just 30 days, compared with 137 in the 5 lowest-ranked economies (figure 11.1). Economies that make it difficult to obtain construction permits require several layers of clearances that must be obtained separately from different agencies. They often also require many more inspections. Economies ranking in the middle of the distribution require an average of 3 inspections during construction, while those ranking in the top 5 require only 1.

## WHO REFORMED IN DEALING WITH CONSTRUCTION PERMITS IN 2012/13?

Between June 2012 and June 2013 *Doing Business* recorded 24 reforms making it easier to deal with construction permits and 2 making it more difficult (table 11.1). Europe and Central Asia had the most reforms making it easier, with 8. Sub-Saharan Africa had 7 making it easier but 1 making it more difficult. East Asia and the Pacific had 3 making it easier, Latin America and the Caribbean and OECD high-income economies each had 2, and South Asia and the Middle East and North Africa each had 1. OECD high-income economies also had 1 making the process more difficult.

**FIGURE 11.1** Formalities before construction begins are the most time-consuming and costly part of dealing with construction permits  
Averages by ranking group



Note: Poor practice economies are the 5 lowest-ranked economies on the ease of dealing with construction permits, excluding “no practice” economies. The second column represents the 5 economies ranked from 140 to 144 on the ease of dealing with construction permits. The third column represents the 5 economies ranked from 93 to 97. The fourth column represents the economies ranked from 45 to 49. Good practice economies are the 5 top-ranked economies. The “before construction” stage involves all procedures that must be completed before the start of construction, such as obtaining approvals of construction drawings and obtaining building permits. The “during construction” stage involves all procedures that occur during construction, such as on-site inspections by relevant agencies. The “after construction” stage involves all procedures that must be completed after construction for the warehouse to become operational, such as obtaining an occupancy permit and registering the warehouse. The “utilities” stage involves all procedures required to connect the warehouse to water, sewerage and a fixed telephone line, such as an on-site inspection from the relevant water authority.

Source: *Doing Business* database.

In the past year Ukraine made the biggest improvement in the ease of dealing with construction permits (figure 11.2). In mid-2012 the government adopted a risk-based approval system, classifying construction projects into 5 categories based on their complexity, with categories 1-3

being simpler buildings. This has simplified the process and streamlined the procedures needed to obtain construction permits for less complex buildings like warehouses, which fall into category 3. For warehouses the requirement to obtain a construction permit was replaced with

TABLE 11.1 Who made dealing with construction permits easier in 2012/13—and what did they do?

Feature	Economies	Some highlights
Streamlined procedures	Botswana; Costa Rica; Côte d'Ivoire; Gabon; Guatemala; Kosovo; Latvia; FYR Macedonia; Malaysia; Montenegro; Mozambique; Philippines; Poland; Russian Federation; Rwanda; Sri Lanka; Togo; Ukraine	The Russian Federation eliminated duplicate clearances from several government agencies.
Reduced time for processing permit applications	Botswana; Costa Rica; Côte d'Ivoire; Gabon; Guatemala; Latvia; Malaysia; Montenegro; Mozambique; Russian Federation; Slovenia; Sri Lanka; Turkey	Turkey implemented strict time limits to obtain a lot plan and simplified documentation requirements to obtain an occupancy permit.
Introduced or improved one-stop shop	Burundi; Gabon; Guatemala; Malaysia; Mongolia; Montenegro	Guatemala and Malaysia introduced one-stop shops for construction permits and postconstruction approvals.
Reduced fees	Kosovo; Malaysia; Malta; Mongolia; Rwanda; Sri Lanka	Sri Lanka reduced the fee to obtain a construction permit by eliminating the development tax.
Introduced or improved online services	Costa Rica; Gabon; Guatemala; Mozambique; Rwanda	Costa Rica launched an e-government platform that allows online submission of construction permit applications and streamlines internal reviews.
Introduced risk-based approvals	Botswana; Malaysia; Ukraine	Botswana clarified environmental impact assessment requirements for projects. Ukraine introduced a risk-based approval system, eliminating preconstruction utility approvals and postconstruction certification procedures.
Adopted a new building code	Azerbaijan	Azerbaijan adopted a new construction code that streamlined procedures and established official time limits for completing various procedures in the construction permitting process.
Improved building control process	Togo	Togo improved its workflow communication and implemented a standard procedure for processing applications.

Source: *Doing Business* database.

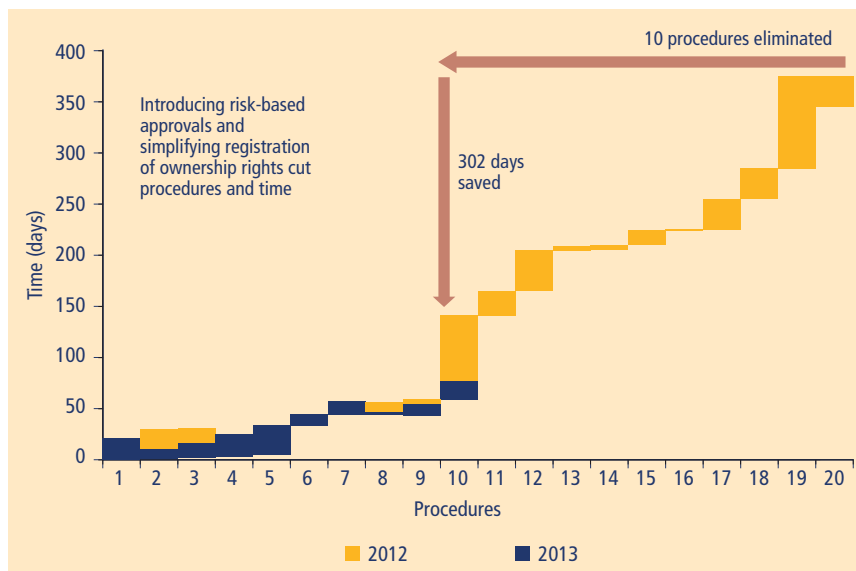
a requirement to provide notification that construction works had commenced.

In addition, the process for obtaining technical requirements was simplified

by streamlining procedures and eliminating the requirement to obtain technical requirements from the Fire Safety Department and Department of State Auto Inspection. Project supervision was

simplified by eliminating the requirement to develop a preproject city planning justification for the State Enterprises (Ukrderzhbudexpertyza) and the State Inspectorate of Architecture and Construction Control in Kiev. Ukraine also amended the Law on State Registration of Property Rights to Real Estate and Their Encumbrances, which went into effect on January 1, 2013. The law reduced the number of agencies that can register ownership rights over real estate and issue ownership certificates and introduced strict time limits for registering real estate. Together these changes eliminated 10 procedures and reduced the time for dealing with construction permits by 302 days.

FIGURE 11.2 Ukraine made dealing with construction permits faster and easier

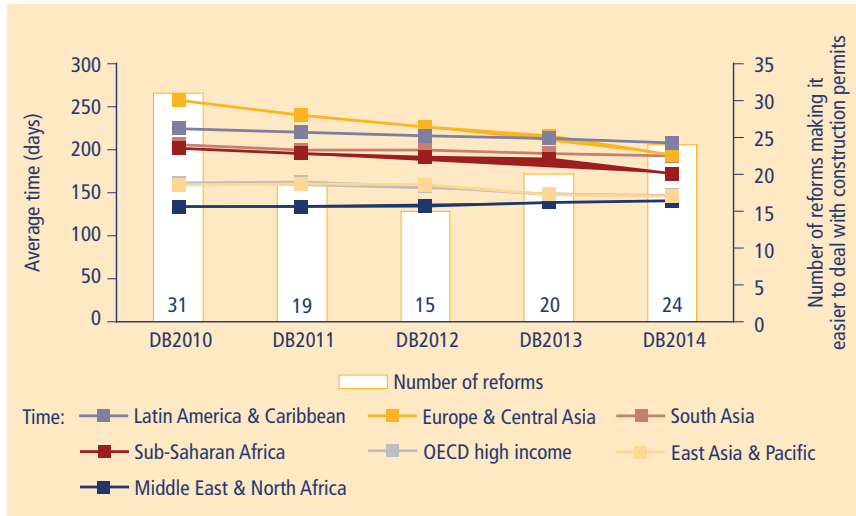


Source: *Doing Business* database.

## WHAT HAVE WE LEARNED FROM 5 YEARS OF DATA?

Since 2009, 73 economies have implemented 109 reforms making it easier to deal with construction permits. Europe and Central Asia made the most reforms, with 29, followed by Sub-Saharan Africa with 26, Latin America and the Caribbean with 17, OECD high-income economies

FIGURE 11.3 Europe and Central Asia has achieved the most time savings in dealing with construction permits



Note: To ensure accurate comparisons, the figure shows data for the same 183 economies for all years, from DB2010 (2009) to DB2014 (2013). The economies added to the *Doing Business* sample after 2009 and so excluded here are Barbados, Libya, Malta, Myanmar, San Marino and South Sudan. This figure uses regional classifications for 2013. Source: *Doing Business* database.

with 14, East Asia and the Pacific with 11, the Middle East and North Africa with 10 and South Asia with 2. Since 2009 Europe and Central Asia has achieved the most time savings, reducing the time to deal with construction permits by 64 days on average (figure 11.3).

Over the past 5 years the most common feature of these reforms was streamlining project clearances. Building approvals tend to require technical oversight by multiple agencies, and one way to simplify this process is by establishing one-stop shops. But the success of one-stop shops depends on

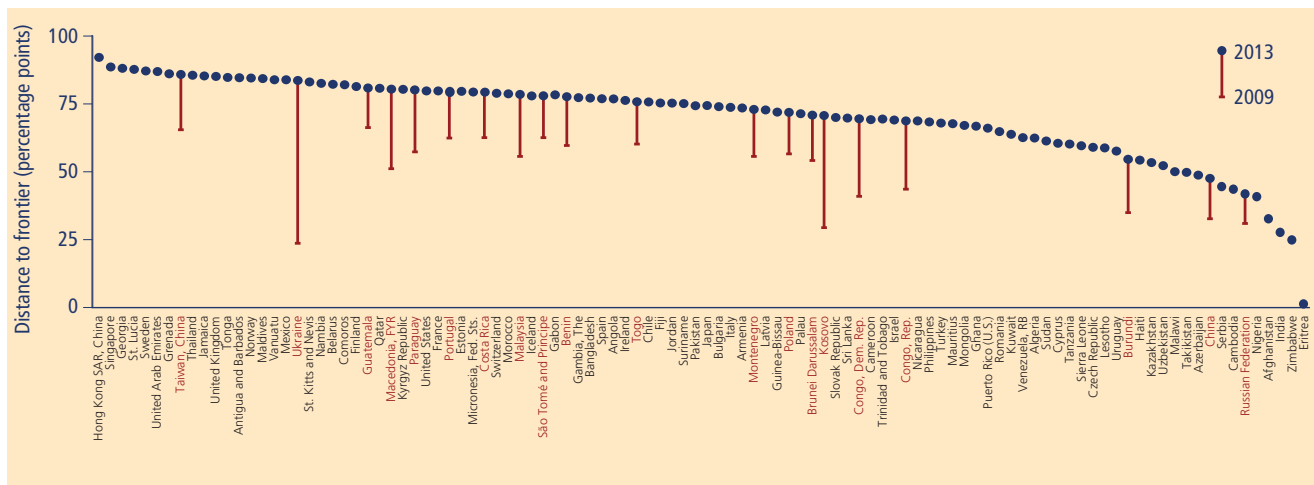
good coordination among all agencies involved and often requires overarching legislation that ensures information sharing and establishes oversight mechanisms to minimize cases of noncompliance.

In 2011 Taiwan, China established its first one-stop shop for construction permits and continues to improve its operations. By 2012 the number of procedures required to process permit applications had fallen from 25 to 11 and the time from 125 days to 94. Since 2009, 17 economies have successfully implemented one-stop shops for permit applications.

Ukraine saw the fastest progress toward the frontier in regulatory practice in construction permitting over the past 5 years (figure 11.4), largely due to the improvements in more recent years discussed above. But Ukraine began reforming construction permitting before that. In 2005 it adopted the Provincial Act on Construction of Buildings, which clearly defined procedures for obtaining permits to design and develop buildings and for drafting, approving and ensuring the accuracy of project documentation. The act also identified the main requirements for construction work.

In 2006 the Law on the System of Permits for Business Activity introduced a

FIGURE 11.4 Ukraine has advanced the most toward the frontier in dealing with construction permits over the past 5 years



Note: The distance to frontier scores shown in the figure indicate how far each economy is from the best performance achieved by any economy on the dealing with construction permits indicators since DB2006 (2005). The scores are normalized to range between 0 and 100, with 100 representing the frontier. The data refer to the 183 economies included in DB2010 (though for practical reasons the figure does not show all 183). Barbados, Libya, Malta, Myanmar, San Marino and South Sudan were added in subsequent years. The vertical bars show the improvement in the 20 economies advancing the most toward the frontier in dealing with construction permits between 2009 and 2013. Source: *Doing Business* database.

principle under which any authorization or permit required to conduct business activity as well as procedures for its issuance must be provided for exclusively in the laws of Ukraine (as opposed to local legislation and similar regulation). The law also provided for administrative liability of officials in violation of issuance procedures. Together the 2005 and 2006 legislation cut the time to obtain a permit by 23 days.

In 2009 more dramatic changes were introduced. Legislation eliminated the need for preproject city planning approvals if projects comply with town planning documentation and rules for building in Kiev and set a limit of 10 business days

for issuing certificates of compliance. These changes reduced the number of procedures by 9 and the time to obtain a permit by 161 days. And in a region in which many economies still have cumbersome construction permitting procedures, Ukraine's reforms can serve as an example for others.

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## NOTES

This topic note was written by Marie Lily Delion, Anushavan Hambarzumyan, Joyce Ibrahim, Momodou Salifu Sey and Matthew Williger.

1. World Bank Group 2013b.
2. Moullier 2009.

3. De Soto 2000.
4. For more information, see the case study on risk-based inspections.
5. Berman 2012.
6. Under the *Doing Business* methodology, if a private inspection firm is hired, only 1 procedure is recorded for the firm. Subsequent inspections are not recorded. Private inspection firms tend to operate more efficiently than government agencies that conduct inspections because government agencies usually conduct other tasks as well. Furthermore, there is generally less opportunity for rent seeking with private firms.
7. World Bank Group 2013b.