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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 23-Apr-2024 | Report No: PIDA0305



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Serbia	EUROPE AND CENTRAL ASIA	P500611	Second Real Estate Management Project
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Investment Project Financing (IPF)	15-Apr-2024	29-Jul-2024	Urban, Resilience and Land
Borrower(s)	Implementing Agency		
Republic of Serbia	Ministry of Construction, Transport and Infrastructure, Republic Geodetic Authority		

Proposed Development Objective(s)

To improve the transparency, accessibility, and reliability of Serbia’s real property management systems.

Components

Component A: Implementation of the Property Mass Valuation System

Component B: Integration of Information Systems and NSDI Services Development

Component C: Institutional Improvement, RGA Sustainability, and Project Management

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	32.55
Total Financing	32.55
of which IBRD/IDA	32.55
Financing Gap	0.00



DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	32.55
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Environmental And Social Risk Classification

Moderate

Decision

Other Decision (as needed)

N/A

B. Introduction and Context

Country Context

1. **Serbia is an upper middle-income country that has made substantial gains in building institutions since emerging from the conflicts of the 1990s, but government effectiveness remains a challenge.** The first democratic governments elected in the early 2000s initiated the political and economic transition typical of other Eastern European countries a decade earlier. Significant progress was made on achieving a stable macroeconomic framework and substantial fiscal buffers, notably since 2015. However, historical trends in governance indicators show that Serbia’s improvement has stalled in certain dimensions, holding back development progress in other areas.¹ Thus, the current level of government effectiveness is below those observed in new European Union (EU) member states five years prior to their accession. Moreover, checks and balances are still below the average for other upper middle-income countries, and significantly below EU levels. Since 2014, Serbia has been in negotiations with the EU regarding governance reforms to be carried out prior to it joining the bloc.

2. **Serbia’s economy and the labor market were relatively resilient during the COVID-19 pandemic, driven by large-scale fiscal stimulus in 2020 and 2021, but have faced challenges related to problems in Serbia’s domestic energy sector as well as external shocks.** Due to a significant increase in spending on pandemic-related goods and services, transfers to households, and subsidies provided as part of a stimulus package to mitigate pandemic impacts, the fiscal deficit reached 8 percent of gross domestic product (GDP) in 2020 and 4.1 percent in 2021. Public debt reached 57.1 percent of GDP by December 2021 but eased to 55.6 percent by the end of 2022. In 2023, there was a further decrease of fiscal deficit, which helped to bring the public debt further down to 52.9 percent of GDP (December 2023). The unemployment rate stabilized around 9 percent over the past two years. Poverty (based on the upper-middle income line of US\$6.85 per day in 2017 purchasing power parity) is estimated to have declined slightly from 7.9 percent in 2021 to 7.5 percent in 2022 and further declined to 7.1 percent in 2023 despite relatively high inflation. Inflation at the end of 2023 was estimated at 7.6 percent after peaking in March 2023 at 16.2 percent. The Current Account Deficit narrowed significantly in 2023 to reach 2.6

¹ As noted in the 2020 Systematic Country Diagnostic Update for Serbia.



percent of GDP after a one-off increase in 2022 due to a high import of energy and food. Large-scale imports of power started in early 2022 due to problems in Serbia's power sector, and particularly in the production of lignite-based power. Going forward, key challenges concern the performance of State-Owned Enterprises that could pose a significant fiscal risk and lower the projected growth of the economy.

3. **Vulnerability to the impacts of climate change, especially higher-frequency and higher-intensity floods, landslides, wildfires, droughts, and heatwaves, pose significant challenges to Serbia's population and economy.** The number of people affected by flooding is assessed at about 200,000 on average per year, at an estimated cost of US\$1 billion in GDP. For instance, massive floods across Southeast Europe in 2014 pushed 125,000 people in Serbia into poverty and resulted in damages and losses of over EUR 1.5 billion (equivalent to 4.8 percent of then GDP). Simultaneously, mean annual temperatures have risen by 0.3°C per decade. The increase in temperatures could lead to severe water shortages and increased instances of heat waves. Significant additional risk comes from an increased frequency of droughts which, according to government estimates, have caused damages of over EUR 3.5 billion since 2000. Most recently, drought has reduced domestic agricultural output two years in a row at a time when international food prices were also rising sharply. The drought of the summer of 2022 is the latest in a series of climate-related events with significant economic impacts, including severe drought and floods in 2012 and 2014 that caused recessions. According to official statistics, extreme weather events in recent years have cost the country more than EUR 5 billion, with droughts and extreme temperatures accounting for 70 percent of the losses, and their severity and frequency is expected to grow due to climate change.²

4. **In light of these challenges, the Government of Serbia (GoS) has articulated its approach to address them in the comprehensive Serbia Action Plan, with emphasis on fiscal and environmental sustainability.** The GoS has emphasized the importance of key policy areas including economic strengthening and entrepreneurship, efficient and responsible public institutions, environmental protection and green transformation, and human capacity building. Effective public administration remains crucial to the achievement of these policy areas, and this includes continued strengthening of Serbia's land administration system, enhancement of land tenure security, and the diversification of the fiscal base through the development of fair and equitable property taxation. The efforts of the GoS concerning the land sector are foundational to unlocking economic growth and the further development of land records information that can be utilized by other GoS institutions for decision-making, planning, private sector development, disaster risk management, and climate change adaptation and mitigation.

Sectoral and Institutional Context

5. **Over the past 20 years, Serbia has made major progress in establishing effective and professional land registration and cadaster services to facilitate land markets and provide tenure security.** From 2004 to 2012, under the World Bank-financed Real Estate Cadaster and Registration Project (RECRP; P078311), Serbia established the Real Estate Cadaster (REC), a single system for real property rights registration, which is under the authority of the Republic Geodetic Authority (RGA).³ RECRP played a pivotal role in the development of land and real estate markets in Serbia. It was supplemented by technical assistance (TA) from the Bank to advise the GoS on three critical areas of real estate reform: (i) planning and permitting; (ii) valuation, taxation, and public land management; and (iii) security of property and property rights. TA outputs included a Land Policy Note shared with the GoS that highlighted the benefits of real estate reform on Serbia's fiscal deficit and business climate. Since 2015, the ongoing Real Estate Management Project (REMP; P147050) and its Additional Financing build on the proposals of the Land Policy Note, with support to valuation and property taxation, e-governance for enabling access to real estate information, and RGA's further institutional development.

² Information in this paragraph obtained from the World Bank CPF and the *ThinkHazard* profile for Serbia.

³ RGA manages Serbia's REC and supervises 164 Local Cadaster Offices (LCOs) spread throughout the country. RGA reports to the Ministry of Construction, Transport and Infrastructure.



6. **The results of REMP's activities have provided wide ranging benefits for citizens, businesses, and GoS authorities.** Since the start of REMP, Serbia's real estate market has experienced significant efficiency gains, as evidenced by the drop from 48 days to 3.89 days in the average time required to complete the recordation of a land or property transaction at RGA. RGA's service provision continues to experience high customer satisfaction, with a current rate of 91 percent (up from 66 percent at the start of REMP). To achieve these gains, REMP has invested heavily in the development of RGA's Integrated System for Real Estate Cadaster (ISREC), which provides digital maps covering approximately 67,000 km² (approximately 86 percent) of the national territory and integrates Serbia's land registry and cadaster within a single database. The cadastral data provided by ISREC directly feeds into GeoSrbija, which also benefits from data provision from an additional 128 Serbian institutions. Moreover, RGA is actively working to sign Memorandums of Understanding (MoUs) with other GoS institutions for data sharing to further improve service provision that requires accurate geospatial information and has signed 44 MoUs to-date. REMP also support the establishment of a Building Register that covers approximately 80 percent of the country and includes the above-referenced OSS system for construction permit issuance.⁴ A utility cadaster module for ISREC is currently being developed via REMP, and both the Building Register and utility cadaster will provide key data for informed and improved infrastructure planning and investments in Serbia.

7. **REMP's support to real estate valuation will also contribute to the future scale-up of a fairer and more equitable property taxation based on market values.** Prior to REMP, Serbia was characterized as having property tax rolls that omitted significant numbers of properties and a system of taxation that did not reflect market values. As a result of REMP, major steps have been taken to address these issues. The development of a Sales Price Register, RGA's publication of regular reports on the state of the property market, the creation of mass valuation models for residential properties using sales prices, building register development, and the adoption of national valuation standards and licensing reform for valuers have had a major impact on improving the efficiency of the residential property market, and help to lay the foundations for the adoption of a market value property tax system for residential property.

8. **Building on the achievements of real estate valuation under REMP, the GoS is keen to expand mass valuation models to cover non-residential properties.** This has the potential to produce the same level of transparency and efficiency in the non-residential sector as was achieved in the residential sector. Work remains to be done in Serbia on the collection of non-residential property characteristics and the identification of all individual taxable units and their geo-locations. Additionally, a system of distribution for mass valuation results needs to be developed, which would assist different users (e.g., citizens, businesses, commercial banks, government institutions, public entities, etc.) in line with their needs. The taxation of commercial and industrial properties remains a challenge, as businesses tend to rent premises rather than buy them. These income transactions are not normally captured through RGA's land registration system. As such, it is necessary to develop alternative systems for capturing income transactions such as rents and lease information for commercial and industrial properties from which mass valuation models can be developed. The creation of such systems will contribute to significant improvements in the transparency and efficiency of the non-residential property market, which will benefit private sector investment and economic growth as well as tax revenues.

9. **The GoS also aims to develop additional services for the use of the land registry and cadaster information maintained in ISREC.** In line with Serbia's vulnerability to natural disasters such as flooding and landslides, RGA is keen to further develop its Risk Register that will utilize cadastral data to identify areas of the country that are in hazard zones as part of improved climate change mitigation and adaptation risk planning and the potential economic impact of hazard events. The expansion of the Risk Register would also complement current REMP investments such as the Building Register and utility cadaster to add a further layer of data to provide a more accurate representation of ground realities for public and private sector decision-makers to consider as part of business development and infrastructure planning in Serbia. This information would also utilize mass valuation models, as associated climate hazards would contribute to more accurate calculation of insurance premiums in the event of a disaster. Moreover, while ISREC has been developed, it has not yet

⁴ This registry has not yet been integrated with ISREC, although this is envisioned to be completed under the proposed Project.



been implemented in all of RGA's 164 Local Cadaster Offices (LCOs), and the GoS is keen to complete its implementation to provide standard, streamlined services to all citizens throughout Serbia.

10. **With these initiatives in mind, the GoS approached the World Bank with a request to support further advancement of the real estate management systems in the country via the Second Real Estate Management Project (REMP 2).** REMP 2's activities will build directly on the investments under REMP and its Additional Financing by helping to scale-up e-service provision by RGA, bolstering the long-term sustainability of REMP's investments, and completing the national rollout of mass valuation and implementation of ISREC. REMP 2 also aims to support data quality improvements at RGA and build on the achievements of NSDI establishment to-date as part of efforts to expand accessibility and availability of geospatial information for relevant users and key actors in Serbia's land sector.

C. Proposed Development Objective(s)

Development Objectives

11. To improve the transparency, accessibility, and reliability of Serbia's real property management systems.

Key Results

12. Achievement of the PDO will be measured via the following indicators:

- Enhanced data from multiple registries available via GeoSrbija (Text)
- Population with access to property services (Percentage)
- E-Services providing authoritative data for official use through GeoSrbija (Number)
- RGA's institutional sustainability enhanced to ensure business continuity (Text)

D. Project Description

13. The Project will include three components as described below.⁵

14. **Component A: Implementation of the Property Mass Valuation System (EUR 7,469,000).** This component will finance the following activities in support of the advancement of mass valuation for all types of property in Serbia: (i) the development of mass valuation models for non-residential properties (e.g., commercial properties) and the national rollout of mass valuation models already developed for residential properties; (ii) the development of an information system for mass valuation that will be interoperable with other key information systems maintained by RGA⁶; (iii) the creation of a residential property index that includes all types of residential property; (iv) the development of a Building Register module that will be interoperable with ISREC; (v) acquisition of very high-resolution satellite imagery and climate-related data; and (vi) technical support to quality assurance and quality control.

15. **Component B: Integration of Information Systems and NSDI Services Development (EUR 19,155,000).** This component will finance activities related to the further digital transformation of RGA and the advancement of Serbia's NSDI in line with national and international best practice and standards. Specific activities to be financed include (i) ISREC's upgrade and the completion of its national implementation; (ii) development and advancement of new and existing information systems and services, including the infrastructure cadaster, the Digital Archive System, land consolidation, and the Risk Register; (iii) technical studies for further development and use of cadastral data such as a 3D cadaster; (iv) expansion of GeoSrbija and the development and integration of additional data layers; (v) development of mobile applications; (vi) supply of IT hardware, equipment⁷, and support to cybersecurity and disaster recovery; and (vii) technical

⁵ The Project's front-end fee of EUR 75,000 will be paid using the loan financing. As such, the component costs for REMP 2 add up to EUR 29,925,000.

⁶ I.e., the Building Register and other systems as described under Component B.

⁷ All IT hardware and equipment purchased via REMP 2 will comply with Serbia's national energy efficiency standards.



support for data quality improvement. Component B’s NSDI activities will be implemented based on the Action Plan and Business Models produced during REMP in line with the UN-endorsed Integrated Geospatial Information Framework (IGIF). The development of new applications and e-services to increase Serbia’s NSDI usability and benefits will leverage new technologies such as AI.

16. **Component C: Institutional Improvement, RGA Sustainability, and Project Management (EUR 3,301,000).** This component will finance activities related to RGA’s long-term institutional sustainability and project management for REMP 2. Specifically, activities to be financed under this component include (i) updates to RGA’s Roadmap, Strategic Plan, and Business Plan for institutional transition; (ii) implementation of RGA’s Portfolio Management Plan⁸; (iii) further implementation of several International Organization for Standardization (ISO) standards for RGA’s full compliance with international standards for land administration and associated IT systems; (iv) Project Implementation Unit (PIU) staffing and operations and Monitoring and Evaluation (M&E) activities; (v) capacity building programs; and (vi) public awareness campaigns and customer satisfaction surveys.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

17. **Overall Environmental and Social (E&S) risk of the Project is Moderate.** The Project is not expected to have significant adverse environmental impacts, as it will mostly support desk-based work, (i.e., software development for the development of a mass valuation system for residential properties; digital transformation of RGA; improvement of cybersecurity, data and systems protection and recovery, etc.). The Project will not support any civil works. It was confirmed that the initially planned activity related to drone purchase and usage has been dropped. The only potential indirect adverse environmental risk and impacts might arise from IT infrastructure upgrades (including the supply of hardware, servers, block storage, etc.). These issues can be effectively mitigated by aligning with the national regulatory framework and incorporating provisions under the Environmental and Social Commitment Plan (ESCP) for: (i) energy efficiency standards for hardware appliances; and (ii) the management of electrical and electronic equipment waste (e-waste). On the other hand, the Project will bring some positive environmental and climate change impacts as the activities under Component B (Integration of Information Systems and NSDI Services Development) will track urbanization and urban sprawl trends, which strain infrastructure and deplete carbon sinks. Public agencies will utilize information from the advanced GeoSrbija National Geoportal, (which enables interoperability and data sharing among various agencies) for disaster simulations, land use planning, and climate-smart decision-making.

18. Overall, the adverse environmental risks and impacts associated with this Project are anticipated to be minimal or negligible in scope. Consequently, the environmental risk rating is assessed as Low.

19. Social risk is considered Moderate, as the Project has moderate magnitude, yet high spatial extent, risks. It does not, however, involve significant, unpredictable, or irreversible risks. Recognized risks can be mitigated through the implementation of standard measures based on existing legal frameworks, international guidelines, and protocols for

⁸ The Portfolio Management Plan was first developed in 2024 in cooperation with the Swedish International Development Cooperation Agency (Sida) and will be fully implemented under REMP 2.



effective risk management. Nevertheless, continuous monitoring and adaptation may be necessary to address emerging challenges. The anticipated social risks with applicable measures are as follows:

- **Data Protection and Cybersecurity:** The Project involves handling sensitive property data, which raises concerns about private data protection and cybersecurity. To mitigate these risks, strict protocols aligned with national regulations, international standards, and GIIP guidelines will be implemented. Data protection and security specialists at RGA will oversee this aspect. This requirement is also outlined in the ESCP.
- **Mass Valuation and Tax system Fairness:** The intention of mass valuation is to create a fairer tax system. However, the main concerns are on how the Project will ensure fairness in the mass valuation process, particularly for vulnerable groups. To address this aspect, RGA will follow international best practices and standards, such as those established by the International Association of Assessing Officers and will adhere to International Valuation Standards and EU Valuation Standards. These standards, adopted by Serbia, will include ethical guidelines and codes of conduct that are binding for all evaluators involved in mass valuation and will guide system development.
- **Land Disputes and Registration of Informal Properties:** The project could, unintentionally, lead to downstream risks associated with land disputes due to insufficient transparency and accuracy in the mass valuation system. To prevent this, the project will establish clear processes to ensure that all parties understand the steps involved and the basis for valuation decisions, ensure accurate data collection, stakeholder engagement, and activate the grievance mechanism. The project will also ensure legal alignment and foster most advanced technology integration. RGA will not carry out formal registration of informal properties but will record them in their system that allows for understanding of irregularities and illegalities without formalizing ownership, which could escalate disputes. However, in doing so, RGA will consider the broader legal framework governing land tenure and property rights to ensure that the recording of informal properties is consistent with national laws and policies. This will help the GoS understand regularities and irregularities. In addition to measures prescribed in the SEP, RGA will collaborate with local governments and non-governmental organizations to ensure that the recording of informal properties is conducted in a manner that is respectful of the rights and needs of the occupants.
- **Public Misperception:** To prevent any potential misunderstandings regarding mass valuation processes and outcomes, the Project will use transparent and standardized valuation methodologies that are clearly documented and widely understood. Information about the valuation process will be accessible to the public, and mechanisms for addressing grievances will be established. The SEP is prepared for SE and CE, with a focus on reaching vulnerable groups through tailored strategies. The ESCP mandates the establishment of the Grievance Redress Mechanism (GRM), which, along with continuous customer satisfaction surveys, will ensure a closed feedback loop in communication with citizens. A Social Specialist from the existing staff will be assigned to oversee and report on SEP and GRM implementation.
- **Digital Divide:** To address a potential digital divide in access to digital services, the Project will draw upon international guidelines and successful practices from REMP 1 in providing support and adapting the system to accommodate the needs of diverse vulnerable groups.
- The ESCP also includes key elements of the Labor Management Plan (LMP) to oversee labor and working conditions for both contracted and direct project workers.

20. The above-listed social impacts and risks are considered manageable with appropriate mitigation measures, resulting in an overall Moderate social risk for the Project.

E. Implementation

Institutional and Implementation Arrangements

21. The Project will be managed by RGA, which has vast experience implementing Bank-financed projects. A PIU will be housed at RGA and will manage implementation of project activities. The PIU will include civil servants and contracted



consultants and will provide day-to-day support for project implementation. The PIU will include technical specialists, a Team Leader, Project Component Leaders, a M&E Specialist, a Procurement Specialist, a Financial Management (FM) Specialist, a Social Specialist, and an Administrative Assistant. Adherence to the POM will govern the PIU's activities by detailing consultants' and civil servants' expert roles, their responsibilities, and internal processes. The PIU will oversee and monitor all Project operating costs and take care of equipment and logistics, all in coordination with RGA management. Additionally, the PIU will be responsible for the preparation, update, and disclosure of ESF documents as well as overall ESF and national legislation compliance throughout Project implementation.

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APPROVAL

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