

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA10914

<b>Project Name</b>	Real Estate Management Project (P147050)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Serbia
<b>Sector(s)</b>	General public administration sector (40%), Law and justice (30%), Information technology (30%)
<b>Theme(s)</b>	Land administration and management (25%), Personal and property rights (25%), e-Government (25%), Municipal finance (25%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P147050
<b>Borrower(s)</b>	Ministry of Finance
<b>Implementing Agency</b>	Republic Geodetic Authority
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	05-Aug-2014
<b>Date PID Approved/Disclosed</b>	06-Aug-2014
<b>Estimated Date of Appraisal Completion</b>	21-Aug-2014
<b>Estimated Date of Board Approval</b>	20-Oct-2014
<b>Decision</b>	The Chair authorized the team to appraise and negotiate the project. The tentative timeline for appraisal is August 20-21 followed by negotiations on September 10-11, 2014. The Board Date is set for October 20, 2014.

## I. Project Context

### Country Context

The 2008 international financial crisis put an end to nearly a decade of rapid growth and marked the beginning of a period of economic and fiscal turbulence in Serbia. The economy entered recession in 2009, which prompted the authorities to adopt an IMF-supported fiscal adjustment package. Despite spending cuts, Serbia's fiscal deficit kept increasing due to a sharp decrease in revenues. 2010 and 2011 were characterized by a timid recovery and the economy slipped again into recession in 2012. Unemployment increased by 20 per cent, inflation exceeded 12 per cent, and public debt rose by more than 12 per cent, reaching 62 per cent of GDP. Since 2012, the global financial markets situation has been more favorable and the Serbian economy has shown signs of recovery. However, strong policies are required to tackle one of the highest unemployment rates in Europe, improve one the most difficult investment climates of the region and unlock Serbia's growth potential.

## Sectoral and institutional Context

The proposed project is an extension of the World Bank's decade-long engagement in Serbia's real property sector. Between 2004 and 2012, with the help of the Bank-funded Real Estate Cadastre and Registration Project (RECRP), Serbia established the Real Estate Cadastre (REC), a single system for real property rights registration, which is under the authority of Republic Geodetic Authority (RGA). The project was rated "satisfactory" and played a pivotal role in the development of land and real estate markets in Serbia. The RECRP was followed by a Technical Assistance (TA) project, which advised the Government of Serbia on three critical areas of real estate reform: (a) planning and permitting; (b) valuation, taxation, and state land management; and (c) security of property and property rights. The TA outputs were finalized and a Land Policy Note, which highlighted the benefits of real estate reform on Serbia's fiscal deficit and business climate, was prepared and shared with the Government. It was during the course of the TA that the Government requested the proposed project in order to carry out some of the crucial reforms recommended in the TA.

Despite persistent problems in the broader economy, Serbia's real estate sector has seen considerable improvement over the last decade. Ten years ago, the cost and time required to register property rights were excessive, most real properties were not registered, only 20 per cent of the country was covered in "land books" (legal registers maintained by municipal courts), and there was a mismatch between these books and the records of the RGA. With the help of the RECRP, the time required to register transactions has been reduced, cadastral offices have been renovated, important geodetic infrastructures have been built, and customer satisfaction has improved. RGA still needs to record all buildings in the cadastre to ensure that all properties are included in the property tax and that legalization of buildings that are currently built informally can proceed smoothly. In March 2013 the parliament adopted a *lex specialis* to allow people without building permits to register property if it is less than 300 square meters in extent. Out of the total 4.6 million buildings that are estimated to exist in the country, it is estimated that up to 1.3 million buildings are affected by the *lex specialis*, and already the process of regularization has been started for 60 per cent of them.

Although these improvements are significant, Serbia's real property registration services remain below European Standards. RGA's attempts to develop a new IT system failed, the REC is not interoperable with other key government registries, online services are limited, and the backlog of registration requests is increasing. Over 30 per cent of RGA's analog cadastral maps have yet to be digitized and it lacks an archive center for keeping important paper records. Investments in geodetic infrastructure are needed and RGA services need to be made more accessible to all, including vulnerable groups. The data held by RGA on land, ownership, buildings, utility lines, various forms of maps, etc. is vital information for most government services and needs to be made complete and more easily available. Lastly, while RGA's mandate has been further expanded to cover activities such as property valuation and building register, it does not have a viable business model, and there are concerns about the sustainability of the services it provides.

Property valuation and taxation is another area where Serbia has made limited progress. Property tax yield in Serbia is relatively low, with about 0.6 per cent of its GDP collected annually in property taxes, against an average of 1.8 per cent in OECD countries. Serbia lacks the complete and accurate data necessary to establish the tax base, it uses outdated valuation methods, its tax rates are

low, and authorities do not apply penalties to those who fail to file their tax declaration or underestimate the value of their real properties. In addition, valuation is done by professionals who operate without licenses and are not required to comply with international valuation standards. It also means that banks are exposed to a high level of risk when utilizing real estate as collateral for loans.

The complexity and cost of developing land legally is another issue that deserves particular attention as it constitutes a burden to investments. According to the 2014 Doing Business Report, Serbia ranks 182 out of a total of 189 countries in the construction permit category. Entrepreneurs have to go through 18 procedures, wait 269 days and spend 1,433 per cent of Serbia's per capita income to obtain a construction permit. Obtaining a construction permit takes on average 43 more days and is three times more expensive than other countries in the Eastern Europe & Central Asia region. The gap is even wider when comparing Serbia to OECD countries where, on average, obtaining a construction permit takes nearly half the time and costs only 79 per cent of per capita income.

While the complexity and cost of obtaining construction permits discourage some investors, they lead others to develop land without going through the formal procedures. Several measures would need to be adopted to address this issue. First, Serbia would need to reduce the building development charge as it currently generates nearly 85 per cent of the permitting cost. If coordinated with a more efficient property tax, this measure should not generate overall losses in local tax revenues. Second, Serbia would have to improve the urban planning process as the absence of detailed urban plans often prevents the issuance of permits. Third, the time required to obtain building permits could be reduced by establishing 'one-stop-shops'. The whole discipline related to urban planning and issuance of construction permits is closely linked to the work planned under the Project. USAID is heavily involved in this area and the project teams will work closely with USAID contractors to support improvements in this sector. Activities relating to creating detailed urban plans, planning laws, regulations and manuals and the associated work with municipalities is not included as part of the Project because USAID are already providing much of the necessary assistance. It has however been agreed that the project will develop and host the databases needed to make urban plans available to the public.

Lastly, the administration of public real assets is a major issue. The Serbian government is by far the largest real property owner in the country. In mid to large Serbian towns and cities, the central government and Local Government Units (LGUs) can own up to 95 per cent of the territory. LGUs already hold and manage a large number of real property assets, the number will continue to increase as the central government implements its decentralization program. At the same time, LGUs already struggle with administering their real property assets. More generally, public real property management is not optimal. Serbia lacks a comprehensive public asset management strategy and has yet to develop a well-balanced policy and regulatory framework for managing public real assets.

The project would be implemented by the Ministry of Construction, Transport and Infrastructure (MCTI) in conjunction with other ministries. A Project Council comprising representatives from ministries and a Steering Committee comprising RGA directors will be set up along with a Project Implementation Unit (PIU) and a Donor Coordinator Group (DCG).

## **II. Proposed Development Objectives**

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

### III. Project Description

#### Component Name

##### A. Valuation and Property Taxation

#### Comments (optional)

This component would provide all the information required about lands and buildings so that a complete record is available for local government to use and to improve the methodology for valuing and using that property.

#### Component Name

##### B. E-governance for Enabling Access to Real Estate Information

#### Comments (optional)

This component would support RGA to develop and implement: an Integrated REC and Registration IT system, including a fiscal building register, sales index and price index; e-services and interoperability with key government registers; a central analogue and a digital archive; and modernization of the address register and utility cadastre. It would also support the implementation of the National Spatial Data Infrastructure (NSDI) and data quality improvement. The component aims at increasing RGA's capacities to manage the IT systems over the long-term and establishment of a new sustainable business model for further development and maintenance of the IT systems in place.

#### Component Name

##### C. Institutional Development of the Republic Geodetic Authority

#### Comments (optional)

This component would pursue and expand the work initiated under the Real Estate Cadastre Project. The component would also support RGA's efforts to improve its services and meet EU standards in this regard. It comprises five subcomponents: Governance, Strategy and planning; Maintenance of the reference infrastructure; Conversion of existing analogue maps into digital form; C.4) Improving procedures, registration of buildings, removal of backlogs, and enhancement of service infrastructure; and Real Estate Cadastre improvement.

#### Component Name

##### D. Project Management and Supporting Activities

#### Comments (optional)

This component would support incremental costs of consultant services, communications, training, equipment and operations to facilitate project implementation including procurement and financial management, monitoring, evaluation and reporting. A project-funded PIU within RGA would be established in order to manage the project and provide fiduciary oversight. Under the PIU director and a land administration specialist who would act as assistant director, the PIU would contain expertise to coordinate and oversee the components dealing with property valuation and property taxation, information technology, institutional development and improvement of RGA services, public awareness, monitoring and evaluation, and training. An M&E specialist within the PIU would be responsible for monitoring of

### IV. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
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Financing Gap:	0.00	
<b>For Loans/Credits/Others</b>		<b>Amount</b>
Borrower		0.00
International Bank for Reconstruction and Development		50.00
Total		50.00

## V. Implementation

RGA would be responsible for most of the project activities, as they fall within its jurisdiction, with support from a PIU. Project supervision would be the responsibility of the Steering Committee comprising RGA directors. A Project Council consisting of representatives of Ministry of Construction, Transport and Infrastructure (MCTI), Ministry of Public Administration and Local Self Governance (MPALSG), Ministry of Finance (MoF), Ministry of Justice (MoJ), RGA, Tax Authority, State Property Directorate and Standing Committee of Towns and Municipalities would also be set up. The project coordinator would be a representative from MCTI, and coordination would be linked to the Donor Coordination Group (DCG). The DCG is necessary because there are a variety of donors involved with RGA and the strengthening of real estate management in Serbia. EU supports cadastral data exchange between Belgrade and Pristina, and institutional review in RGA. GIZ provides support legislative and institutional reforms related to both urban and rural land. USAID supports improving the construction permitting process through the Business Enabling Project. SIDA supports regional NSDI initiative, and Norway provides technical assistance for RGA integrated software development.

## VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

### Comments (optional)

The project is classified as environmental category B because of building works that are required. While the majority of the project activities are environmentally-neutral, some civil works would be funded. These include: (i) a new building for the cadaster depot in Zemun; (ii) a major rehabilitation of existing RGA office in Sopot; and (iii) minor rehabilitation of the existing RGA building in Ruma. For these works, the locations are defined, and include buildings and building plots that are already owned by either RGA or are state property. Additional rehabilitation of RGA offices may be also undertaken using project funds, but details are not known at present. Nevertheless, it is envisaged that these works, if any, would be undertaken on buildings already owned by RGA or for which RGA has the right to use, build or renovate.

The expected environmental impacts are related to handling of construction material, construction waste and health and safety of workers and general population that need to be close to the construction area. Mitigation of negative impacts related to these activities will be undertaken using well known methods contained in the code of the good construction practice, which will be applied on all construction sites. With respect to hazardous waste – it is expected on location Sopot (asbestos-cement slabs, fibers and mineral dust) – the designer will have to specify in detail both the “building decommissioning method” as well as the general and personal H&S equipment to be used. The hazardous material will be properly sorted at site and immediately packed and delivered to disposal/storage site that can store it under legally prescribed conditions. Both the works contractor and waste management company in Sopot will need to have a valid license to work with the asbestos. No other large, significant or potentially irreversible environmental impacts have been identified, nor are they expected during the execution of the civil works.

## **VII. Contact point**

### **World Bank**

Contact: Gavin P. Adlington  
Title: Lead Land Administration Specialist  
Tel: 458-1612  
Email: gadlington@worldbank.org

### **Borrower/Client/Recipient**

Name: Ministry of Finance  
Contact:  
Title:  
Tel: +381113620519  
Email:

### **Implementing Agencies**

Name: Republic Geodetic Authority  
Contact: Zoran Krejovic  
Title: General Director  
Tel: 38111-3281-784  
Email:

## **VIII. For more information contact:**

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: <http://www.worldbank.org/infoshop>