

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC1936

Project Name	Real Estate Management Project (P147050)
Region	EUROPE AND CENTRAL ASIA
Country	Serbia
Sector(s)	General public administration sector (40%), Law and justice (30%), Information technology (30%)
Theme(s)	Land administration and management (25%), Personal and property rights (25%), e-Government (25%), Municipal finance (25%)
Lending Instrument	Investment Project Financing
Project ID	P147050
Borrower(s)	Ministry of Finance
Implementing Agency	Republic Geodetic Authority
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	11-Nov-2013
Date PID Approved/ Disclosed	13-Dec-2013
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	24-Jul-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The 2008 financial crisis put an end to nearly a decade of rapid growth and marked the beginning of a period of economic and fiscal turbulence. The Serbian 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 percent, inflation exceeded 12 percent and public debt rose by more than 12 percent, reaching 62 percent 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 climate of the region and unlock Serbia's growth potential.

Sectoral and Institutional Context

Serbia's investment climate in the 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 percent 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 Republic Geodetic Authority (RGA). However, with the support of the Bank funded Real Estate Cadastre and Registration Pproject (RECRP) Serbia has established the Real Estate Cadastre (REC), a single system for real property rights registration, which is under the authority of the RGA. 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 also 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 a lex specialis was adopted by government to allow people without building permits to register property if it less than 300 square metres in extent and was built before September 11, 2009. It is estimated that up to 1.3 million buildings owners might apply to have their additional balconies, extensions or complete buildings regularized. Work has started for about 60 percent of the expected total at local government offices.

Although improvements in property registration are significant, Serbia's real property registration services remain below European Standards. The RGA's attempts to develop a new IT system failed, the REC is not inter-operable with other key government registries, on-line services are limited, and the backlog of registration requests is increasing. About 30 percent of its analog cadastral maps have yet to be digitized and RGA lacks an archive center for keeping the masses of paper records. Investments in geodetic infrastructure are needed and RGA services need to be made more accessible to all, including vulnerable groups. Lastly, while RGA's mandate has been further expanded to cover activities such as property valuation and building cadastre, 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 percent of its GDP collected annually in property taxes, against an average of 1.8 percent 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 2013 Doing Business Report, Serbia ranks 179 out of a total of 183 countries in the construction permit category. Entrepreneurs have to go through 18 procedures, wait 269 days and spend 1,427 percent of Serbia's income per capita 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 Eastern Europe & Central Asia. 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 percent of the economies' income per capita.

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 percent 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 updated urban plans often prevents the issuance of permits. Third, the time required to obtain building permits could be reduced by establishing 'one-stop-shops'.

Lastly, the administration of public real assets is also 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 percent of the territory. If LGUs already hold and manage a large number of real assets, the latter will continue to increase as the central government implements its decentralization program. At the same time, LGUs already struggle with administrating their real 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.

Relationship to CAS

The proposed project is in line with the recommendations of the Competitiveness pillar of the FY12-15 Country Partnership Strategy (CPS). As underlined in the strategy, addressing the issues of land use rights conversion and restitution are essential to making real property rights more secure. The strategy also recommends simplifying and lowering the cost of obtaining construction permits. Such a measure will encourage investments and slow down the construction of illegal buildings. The document also identifies the legalization of buildings as another important challenge and recommends the creation of "a full building cadastre in which every building, including those owned by the state, [would be] recorded and its [legal] status – formal or informal — identified".

The project will be prepared in response to the request of Ministry of Finance and Economy to obtain "a new [Bank] loan as a means for conducting reforms in the land sector in order to improve land administration and management". In the request dated February 22, 2013, the Minister of Finance and Economy recognized that "there is a whole set of additional reforms in the land sector that need to be undertaken. They relate to building a unified and transparent mass property valuation system to improve property taxation, streamlining and simplifying the process of issuing construction permits, strengthening the e-governance system by enabling on-line use of data related to land and real estate, and most importantly, building the institutional capacities for implementing these reforms." issues relating to restitution and conversion are being dealt with by the government and do not need funding through the proposed project.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

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

Key Results (From PCN)

Serbia's real property management systems will be more efficient. RGA will have upgraded its IT system and hardware, improved the work-flows in its offices, cleared the backlog of registration

requests and reduced the time required to register transactions. Cadastral map digitization work will have been completed and analog maps will be stored and managed in a central archive center. Serbia's real property management systems will also be more transparent with the REC data readily accessible through the web and the REC system interoperable with the other key government registries. Transparency gains will also come from the adoption of internationally-recognized standards, code of ethic and code of conduct for valuers, as well as the use of participatory urban planning instruments. Lastly, Serbia's property management systems will also be more reliable as the result of the project investments in geodetic infrastructures, spatial data infrastructures, data production and data quality improvement. If successful the real estate market and use of property as collateral by banks should increase and the project will assess these three key areas by survey of the key stakeholders. These gains in efficiency, transparency, and reliability will lead to improvements in property taxes administration and investment climate, which will contribute to the consolidation of the Serbian economy and the realization of its growth potential.

Under an existing trust fund property rights for women and vulnerable groups are being addressed and a work plan is under development. This work will feed into the preparation phase of the project and disaggregated data on the beneficiaries of the project will be collected.

III. Preliminary Description

Concept Description

The project will be structured around the five following components:

Component A – Valuation, Taxation, and Public Real Estate Management (US\$2.05m) will support the establishment of a more efficient and transparent real property valuation and taxation system. Public real property management will also be improved. This result will be achieved through three subcomponents: A.1. Real Property Valuation Infrastructure (US\$0.45m) will focus on the adoption of internationally-recognized real property valuation standards, the introduction of valuers' codes of ethics and conduct, and improvements in the quality of the education for valuers; A.2. Real Property Taxation (US\$1.1m) will support the design and piloting of a mass valuation system for residential and commercial real properties; and A.3. Public Real Property Management (US\$0.5m) will finance the creation of a unit, within the Ministry of Finance, responsible for promoting good practices and executing a training program.

Component B – Planning and Permitting (US\$4.0m) will help improve the planning and permitting process. Activities required to achieve this objective will be structured around three subcomponents: B.1. Planning Laws and Regulations (US\$0.2m) will integrate contemporary planning principles in the existing planning laws and finance the preparation of guidelines and rule books; B.2. Planning Institutions and Capacity (US\$0.8m) will finance the provision of planning equipments, hardware, software, and training courses in selected Local Government Units and within the Ministry of Construction and Planning; B.3. Planning and Permitting Process (US\$3.0m) will finance the preparation of planning manuals, improvements in planning curriculum, a training program, a public awareness campaign, the preparation of urban plans in selected LGUs, and the creation of building permit one-stop-shops.

Component C – Real Property Information (US\$25m) will pursue the work initiated under the Real Estate Cadastre Project. It will be structured around five subcomponents: C.1. REC Information System (US\$13.5m) will finance the execution of RGA's ICT strategy, which includes the

development of a new IT system and the upgrading of its hardware; C.2. National Spatial Data Infrastructure (US\$1.5m) will support RGA's efforts to establish such an infrastructure in Serbia; C.3. ICT Business Model (US\$0.7m) will finance the conception of a sustainable management model for RGA's ICT department; C.4. National Archive Center (US\$7.2m) will finance the construction of a centralized archive building; C.5. Data Quality and Standards (US\$2.25m) will help RGA improve the quality of REC data through the introduction of incentives for citizens to report data inconsistencies and the introduction of data cleaning procedures.

Component D – RGA Institutional Development (US\$15m) will also pursue the work initiated under the Real Estate Cadastre Project. It will comprise five subcomponents: D.1. National Reference Infrastructure (US\$2.52m) will help develop the geodesic infrastructure required to produce accurate real property data, including the AGROS, leveling, and gravimetric networks; D.2. Digital Mapping Program (US\$4.33m) will help RGA complete its cadastral map digitization work; D.3. Services Improvements (US\$1.0m) will help improve the workflows in RGA offices and reduce the backlog of registration requests accumulated in major cities; D.4. Corporate and Business Planning (US\$1.5m) will finance the preparation a corporate and business plan for RGA; and D.5. REC Improvements (US\$4.5m) will finance the production of new orthophotomaps and the development of a record of all buildings for inclusion in the REC.

Component E – Project Management (US\$3m) will finance the establishment of a Project Implementation Unit (PIU) within the RGA to manage the project and provide fiduciary oversight. The large PIU will be staffed with experts capable of coordinating and supervising the activities dealing with property valuation and taxation, planning and permitting, ICT and training. A monitoring and evaluation specialist will also be hired to monitor project progress and coordinate studies to assess the impact of the project on such things as real estate market activity, gender equity, and social inclusion.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
Financing Source			Amount

Borrower	0.00
International Bank for Reconstruction and Development	50.00
Total	50.00

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