

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

Report No.: AB1883

<b>Project Name</b>	REAL PROPERTY RIGHTS CONSOLIDATION PROJECT
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Sector</b>	General public administration sector (100%)
<b>Project ID</b>	P078894
<b>Borrower(s)</b>	REPUBLIC OF PERU
<b>Implementing Agency</b>	
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	October 11, 2005
<b>Date of Appraisal Authorization</b>	October 17, 2005
<b>Date of Board Approval</b>	December 15, 2005

1. Country and Sector Background

President Alejandro Toledo was elected to office in 2001 following the collapse of the Fujimori regime and a short transitional government, in the midst of an economic recession. The Toledo administration has shown an impressive ability to maintain macroeconomic stability and push ahead with a reform agenda, maintaining continuity in economic policy. The economy has performed well under the administration, although President Toledo has faced a difficult political context. The Government lacks a majority in Congress and as in many other countries in the region, cabinet turnover has been high, with five Prime Ministers and five cabinets in less than four years. In spite of this high turnover, the Government has stayed the course and preserved sound guidelines for economic policy that have supported responsible fiscal management.

Peru's poverty reduction strategy has three main objectives: (a) competitiveness and employment generation; (b) equity and social justice; and (c) institutionality and governance (creating an efficient, transparent, participatory and decentralized State). A modern property rights system supports competitiveness by reducing transaction costs and allowing better protection of foreign and local investments, thus generating a favorable business climate. It also contributes to equity and social justice by converting the poor into active development agents, recognizing their property rights and incorporating them in the land and housing markets. Enhanced access to property rights would also contribute to upgrading legal rights over current informal arrangements for the poor, an essential function of an efficient and transparent State.

A redefined relationship between the national, regional and municipal authorities has led to decentralizing public functions and resources (see Annex 15) including property rights matters. There are now "exclusive" and "shared" competencies as well as mechanisms for coordination among the main three levels of government. As the Peruvian decentralization process advances, responsibilities and resources will be gradually transferred to sub-national governments, and hence, strengthening the decentralization process has become a key focal point of Bank assistance. The Government agenda for the next years seeks to ensure the fiscal and institutional sustainability of decentralization and enhance the efficiency, accountability and transparency of sub-national governments for improved service-delivery.

The Urban Property Rights Project (UPRP – Loan No. 4384-PE) achieved a substantial poverty-reduction impact.<sup>1</sup> It supported the Government of Peru (GoP)’s implementation of major property rights reforms between 1998 and 2004,<sup>2</sup> that generated impressive results: (a) around 1.135 million property titles were recorded, which benefited more than 5.7 million Peruvians in marginal communities; (b) about 630,000 of these properties were later transferred through market transactions; (c) titled property values increased by an aggregate of US\$1.05 billion; and (d) formal credit was leveraged by about \$400 million.

The Project will expand the benefits of the UPRP under a decentralized management structure. It will adopt new approaches aimed at reaching new users in new areas. The consolidation of UPRP achievements in terms of legal security, asset mobilization, property appreciation and access to credit will require an adjustment in the tools and targets of formalization<sup>3</sup> taking into account the new institutional set up determined by decentralization: the Provincial Municipalities have moved to the “driver’s seat” of the formalization process. The Project will address several issues in order to prevent the return to informality or the creation of new informality: (a) a comprehensive property rights policy-making mechanism to formulate a road map for a long-term vision; (b) the completion of the formalization program, in selected remnant areas, requiring new cost-effective methodologies; (c) the full-fledged integration of spatial and legal property records, as well as the unification of property registries, facilitating low-cost, easy access for the poor; and (d) the effective economic deployment of property rights and enhanced economic activity in formalized areas.

The Project will deepen institutional reforms by strengthening an integrated framework for Peru’s real property rights system that: (a) provides effective legal security and reduced transaction costs; (b) facilitates effective conflict resolution mechanisms; (c) administers property information through a geo-referenced cadastral system; and (d) encourages participation and consultation.

## 2. Objectives

The main objective of the Project is to consolidate a decentralized and sustainable property rights system that facilitates access for the poor. This system will enhance the welfare of property owners and facilitate access to economic opportunities. Even though the Project cannot eliminate all forms/causes of informal tenure, it will reduce the negative impacts of informality and discourage further informality by consolidating the legal security of property rights, completing conversion of informal tenure, and building capacity to address its causes through strategic partnerships of various levels of Government and key stakeholders in the private sector and civil

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<sup>1</sup> Scaling-up poverty reduction, Global Learning Process and Shanghai Conference, “Case study: Peru – Urban Property Rights Project”, May 2004. World Bank, “Implementation Completion Report on a Loan in the Amount of US\$36.12 Million to the Republic of Peru for an Urban Property Rights Project”, December 27, 2004. Operations Evaluation Department (OED), ICR Review: Urban Property Rights Project, February 2005.

<sup>2</sup> World Development Report, Chapter IV, Property Rights, 2005, p. 81.

<sup>3</sup> Formalization is the name given in Peru to the process through which informal property rights are brought into the formal legal system. Depending upon the situation involving a particular parcel, this can include clearing up questions of competing claims, issuing a formal title, registering that title, developing a cadastre, and taking any other steps required to ensure that the rights of the property holders are recognized and protected by the State.

society. The proposed system will also provide support to the ongoing decentralization program of GoP through the institutional strengthening of Participating Municipalities.

Building on the achievements of the UPRP, the Project will: (a) generate comprehensive real property rights policies through diagnostic studies, strategic partnerships, and legal and regulatory reform proposals; (b) address the remnant demand for property formalization, through a national strategy, municipal strengthening and tailor-made formalization plans; (c) establish a National Real Property system based on a unified registry integrated with a national cadastre; and (d) support property investment and credit promotion initiatives to empower the poor and facilitate the use of the poor's property rights in a formal economy.

### 3. Rationale for Bank Involvement

Continuous Policy dialogue. Through close policy dialogue the Bank has retained a strong role as reform catalyst, especially in politically sensitive and complex areas like institutional reform and decentralization. Specifically, through the UPRP the Bank supported the establishment of a sound legal, regulatory and institutional framework for property rights in Peru. The Bank's continued support through the financing of a follow-up Project, will ensure the consolidation of that framework and the deepening of reforms. The Bank's international experience on similar projects and close coordination with the IADB-financed PETT will help GoP to complete the formalization agenda in urban and rural areas, and provide the basis for sustained protection of property rights and their mobilization through market mechanisms.

International experience. During Project design, the Bank contributed with lessons from its extensive experience in land administration projects throughout the World in support of policy formulation and implementation, and legal, regulatory and institutional reforms of registry and cadastre systems. Specifically in Latin America and the Caribbean Region (LCR), the Bank is supporting projects with land policy, registry, titling and cadastre components in Bolivia, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Best practices of those projects as well as from the decades-long support to the Thailand Land Titling Project and the more recent Cambodia and Laos Projects, have been embedded in Project design.

### 4. Description

The Project seeks to establish a modern property rights system that will be fully integrated and decentralized. Physical and legal information on public and private real property in 74 Provincial and 693 District Municipalities will be efficiently and timely collected and recorded, and made available to the public (about a third of the country's real estate property in 21 Departments of Peru will be incorporated under the new registry-cadastre system). Such a system will increase tenure security, enhance transaction transparency, improve governance at the central and local level, and facilitate the access to financial products by the poor. The Project will cost US\$41.67 million, and will be implemented over five years starting in 2005.

#### Component 1. Comprehensive Real Property Rights Policies

The objective of this component is to: (a) strengthen the policy-making process on property rights in Peru to preserve the achievements of the legal, regulatory and institutional reforms pursued under the UPRP; and (b) to ensure that further reforms will lead to equitable and

sustainable socio-economic outcomes. It will finance the technical assistance required to conduct focalized diagnostic studies, to promote key strategic partnerships, and to prepare sound legal and regulatory reform proposals.

### **Component 2. Decentralized Formalization and Cadastre Services**

The *objective* is to expand the formalization of urban and peri-urban areas in the territory of Participating Municipalities, with the technical assistance of COFOPRI, through activities: (a) adapted to the diverse needs of informal owners; (b) justified in cost-benefit terms; and (c) involving capacity-building and technology transfer for Provincial and District Municipalities. A national strategy will define decentralized formalization mechanisms, determine new priorities, validate new products and consider new communication and public education strategies through pilot testing and user participation. The Project will continue promoting administrative simplification to recognize and protect property rights; only to the extent that formal rules interact with social reality and reduce transaction costs, will the Peruvian State be able to avoid reversion to informality. It will comprise the following subcomponents: national formalization strategy, municipal strengthening programs, and municipal formalization and cadastre plans.

### **Component 3. National Real Property Registry-Cadastre System**

The *objective* is to support the unification of property registries and the establishment of the national cadastre system in SUNARP-RP to improve: (a) the quality of property registry-cadastre services; and (b) access for the poor. This component will provide SUNARP-RP with the required technical assistance and equipment for activities structured around the following subcomponents: unified real property registry, and national integrated real property cadastre information system.

### **Component 4. Credit and Registry Culture Promotion**

The *objective* is to support the economic utilization of property rights and foster real property-related economic activity in formalized areas. Specific goals are: (a) providing practical information on the linkage between registration and access to credit as a tool for individual empowerment; (b) reducing information gaps between formalized owners (including gender knowledge gaps), and credit and service providers; (c) understanding real estate markets in marginal areas in order to identify measures to encourage and facilitate real property transactions and investments; and (d) developing strategic alliances among the public and private sectors to promote business development in formalized areas and facilitate investments in infrastructure and services. Activities will be structured around two subcomponents: communications and public education, and market relevant information.

### **Component 5. Project Management, Monitoring and Evaluation**

The *objective* is to achieve successful Project implementation. It supports: (a) standard Project coordination and management; (b) strategic communication and civil society participation; and (c) specific monitoring and evaluation activities. Qualitative and quantitative studies, including surveys and participatory beneficiary assessments will be financed to provide information for decision-making and improve Project management, obtain beneficiary feedback on Project interventions, and better understand the socio-economic benefits and the long-term impact of property formalization on community empowerment (base-line and follow-up surveys will be conducted to compare results with the ones carried out under the UPRP).

## 5. Financing

Source:	(\$m.)
BORROWER	10
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	25
Total	35

## 6. Implementation

### 1. Partnership arrangements

The development of pro-poor initiatives requires involving the representatives of the poor at the outset. During Project preparation a multi-disciplinary Bank-GoP team carried out consultations with representatives of beneficiaries and stakeholders, through a number of structured and semi-structured interviews, workshops, and focus groups (see Annexes 15, 16 and 17). Benefiting from UPRP experience, a massive public consultation process was not needed, but more focused institutional, social and communications assessments with the participation of institutions and groups directly involved in the Project was deemed sufficient. However, because of the broad demand for new policies, debate was encouraged among high-level GoP officials (at the national and municipal levels), representatives of the private sector and civil society to agree on a basic Project framework during two workshops (March and December 2004)<sup>4</sup> and the preparation of a background policy paper (June 2004).<sup>5</sup> For the pre-feasibility and feasibility studies, two national surveys of informal possessions and municipalities were conducted (February and March 2005).<sup>6</sup>

During Project implementation, stakeholder participation will be essential. Mechanisms for effective participation will include: (i) at the national level, an Advisory Committee with CSOs' representatives will oversee Project implementation; and (ii) at the municipal level, the Participation Agreements will establish specific participatory mechanisms to promote stakeholder involvement in periodic consultation, information dissemination, and conflict resolution. The Advisory Committee will include experts in pro-poor policies, urban development, and access to land and housing issues. Selection of the Advisory Committee will follow transparent and competitive procedures.

Participatory techniques involving stakeholders will be employed in the design of comprehensive policies under Component 1 and in the implementation of the registry/cadastre/titling activities under Components 2 and 3. The viewpoints of municipal governments, the private sector and CSOs will be sought on regular basis. SUNARP, COFOPRI and municipal authorities will provide information and contribute to problem-solving, while community leaders and

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<sup>4</sup> Foros Técnicos Ltda., "Public policy on legal security of property rights in Perú - Summary of workshop results", Lima, March 2004; and Foros Técnicos Ltda., "Real Property Rights Consolidation - Summary of workshop results", Lima, December 2004.

<sup>5</sup> Terradigm, "Strategy Paper on Increasing the Security of Property Rights in the Republic of Peru", June, 2004.

<sup>6</sup> APOYO consultoría, "Estudio de Pre-factibilidad para el Proyecto de Consolidación de los Derechos de Propiedad Inmueble", First Report, August 2005.

organizations provide feedback on the barriers for access to property rights services and propose solutions. Community leaders will also facilitate formalization by organizing community meetings, preceding COFOPRI-Provincial Municipalities door-to-door collection of relevant information. The Project also benefits from strong donor coordination. Representatives of the IADB-financed PETT and bilateral donors (Canada, Germany, Spain) have participated in the project preparation workshops. The results of major studies under the UPRP and additional studies conducted during Project preparation have also been shared with these donors.

## 2. Institutional and implementation arrangements

a. Implementation Period. The Loan is expected to become effective in January 2006 and the Project will be implemented over a five year period (through December 2010).

b. Implementing Agency. This Project will be carried out by COFOPRI and SUNARP. Components 1, 2 and 4 will be the responsibility of COFOPRI, and Component 3 the responsibility of SUNARP. COFOPRI will be responsible for overall Project management, monitoring and evaluation (Component 5).

c. Implementation Arrangements. The close link between the mandate of COFOPRI and SUNARP (both under the jurisdiction of MINJUS), and the experience of the UPRP suggest that the implementation arrangements established under the UPRP should be maintained. An Implementation Agreement will be entered into between COFOPRI and SUNARP to determine the functions and responsibilities of each agency and their relationship with PCU. Participation Agreements will be entered into between COFOPRI and Provincial and District Municipalities in selected areas in connection with the execution of Component 2.

Under the Implementation Agreement, a Project Management Committee with representatives from MINJUS, MEF, COFOPRI and SUNARP will oversee implementation, and make strategic decisions. A Project Manager will be responsible for procurement, disbursements and financial management processes. An Advisory Committee, comprising representatives of the private sector and civil society, universities and think tanks will provide regular feedback on outcome indicators. Under the Participation Agreements, a local steering committee comprising representatives of COFOPRI, SUNARP and Participating Municipalities will have field-level implementation responsibilities for formalization, and the establishment and operation of real property cadastres.

## 7. Sustainability

GoP is fully committed with the Project, and explicitly requested the Bank to include the Project in the CAS as a high priority item (i.e., in the base case). Moreover, during Project preparation Congress passed landmark legislation consistent with Project objectives, including: (a) the National Integrated Cadastre System Law that allows the full-fledged integration of physical (cadastre) and legal information; and (b) the Formalization Law that transfers to Provincial Municipalities the responsibility for formalization and entrusts COFOPRI with the technical assistance for implementation. Regulations have been issued to facilitate the implementation of the latter and are being prepared for the former. The Project will assist GoP in ensuring that the

consolidation of the new integrated policy framework for real property rights takes place through: (a) a decentralized institutional framework that enhances the inter-institutional coordination and technology transfer between COFOPRI and Provincial/District Municipalities; (b) the strengthening of SUNARP, to ensure its financial sustainability through efficiency gains and cost-recovery as well as effective transparency and accountability; and (c) the existence of incentives to subsequent registration through a combination of: (a) the development of active land markets based on formal titles; (b) low transaction costs and high-quality and efficient registration services; and (c) the sharing of credit supporting information.

Financial sustainability of the Project is expected as Project costs will be compensated by improved managerial capacity in COFOPRI/SUNARP and the Participating Municipalities, generating fiscal savings and efficiency gains, including higher effectiveness and transparency in the management of the real property registry/cadastre system, and increased taxpayer compliance at the municipal level. Institutional sustainability will be strengthened through a focus on enhanced inter-institutional coordination, through the Project Management and Advisory Committees that will avoid any fragmentation/duplication of efforts among GoP agencies involved in property rights issues. Technical sustainability will be enhanced through the institutional strengthening and capacity-building provided under Components 2 and 3. Social sustainability will be promoted through a highly participatory approach at all Project stages, including monitoring and evaluation instruments under Component 5. To enhance overall Project sustainability, specific activities have been included: (a) consensus-building under subcomponent 1.2 to create a common vision and mission, a sense of urgency for reforms and stakeholder engagement; (b) communications and social education under subcomponent 4.1 to reduce resistance to change; and (c) participation strategies, and mainstreamed monitoring and evaluation under Component 5.

## 8. Lessons Learned from Past Operations in the Country/Sector

The following table summarizes the lessons learned from the implementation of the UPRP (1999-2004) as well as from the Bank's global, regional and country experience in land administration and property rights projects (Bolivia, Cambodia, El Salvador, Guatemala, Honduras, Laos, Nicaragua, Panama and Thailand).

Lessons learned	Project design
Property rights issues are politically sensitive and <u>Government commitment</u> is critical during Project preparation and implementation. This commitment should be translated into specific actions like the support for changes in laws and regulations, and the establishment of inter-institutional arrangements. A definite legal framework is not required from the beginning; a flexible approach is preferred to incorporate lessons from implementation into laws and regulations.	This Project will benefit from a high-level of commitment from GoP, as was reflected in the implementation of the UPRP, the approval of the laws for registry unification, cadastre system, and decentralized formalization, and the signing of the Implementation and Participation Agreements. Project approach has also received support from the economic teams of the main presidential candidates for the 2006 election.
In-depth <u>analytical work</u> is needed to ensure high quality in the design of a comprehensive policy framework for property rights that overcomes	Extensive analytical work conducted under the UPRP was continued during project preparation and will be continued under Component 1. On such basis, the Project will

traditional geographical or functional subdivisions (urban, rural).	develop a policy framework for titling/registration/cadastral in urban and rural areas that is consistent with a long-term vision of property rights in Peru.
Security of property rights is a public good and its protection and promotion requires <u>broad consensus-building</u> about the proposed policy reforms, to show their economic and social benefits, and establish alliances with stakeholders, giving them voice. Massive formalization organizes communities so they can be more demanding of transparency and accountability from public agencies.	The UPRP supported the development of coordination mechanisms for land-related institutions. The proposed Project strengthen capacity building at all levels: institutional, CSO stakeholders, encouraging public debate on land policies (Component 1). An Advisory Committee will assure broad participation and consultation throughout Project implementation within a results framework stressing institutional transparency and accountability.
To achieve long-term sustainability, projects dealing with property rights should require a supportive <u>legal and regulatory framework</u> that reflects protection and promotion policies, and fosters institutional capabilities to enforce them.	The Project will: (a) support the development of a legal and regulatory framework under Component 1 (including clarification of institutional responsibilities); and (b) provide institutional strengthening and capacity-building under Components 2 and 3.
A <u>single formalization strategy</u> developed at the national level but implemented at the municipal level will: (a) facilitate a seamless treatment of technical issues across Municipalities; and (b) support institutional strengthening at the municipal level with the assistance of national agencies	Under Component 2 COFOPRI will develop a national formalization strategy based on UPRP's experience, and will help Provincial and District Municipalities implement such strategy. The profile, pre-feasibility and feasibility studies required under the Peruvian National Investment System have determined the least-cost alternative for this systematic approach.
Close functional connection between titling/registration/cadastral requires a <u>systemic approach</u> involving multiple agencies; focusing on improving a single function or strengthening only one agency would not lead to the desired outcomes.	Component 2 will help COFOPRI to adopt a national formalization strategy that builds on UPRP's experience and is aimed at working with Provincial Municipalities on decentralized formalization and helping District Municipalities to establish and operate real property cadastral. Under Component 3 the Project will provide the technical assistance for SUNARP-RP to establish a unified national registry/cadastral system.
Although a single agency is preferred for registry and cadastral standard-setting and information gathering, this public monopoly must be accountable to the public at large. The registry is not a concession, and in the best international practice it may contribute revenues to the Treasury.	The Project will support a tariff study of the registry and a cost study of the formalization process to monitor performance and support institutional transparency and accountability.
Property rights projects require <u>common technical national standards</u> in order to achieve: (i) consistent physical-legal technical specifications and procedures that prevent individual and social conflicts; (ii) compatibility of registry/cadastral information systems; and (iii) seamless maintenance of cadastral and registry information.	The national standards for Decentralized Formalization and Cadastral Services will be developed by COFOPRI under Component 2. The Project will help SUNARP to adopt the technical standards for the unified real property registry and the national integrated cadastral information system under Component 3.
Facilitating access to property rights is a necessary but not sufficient precondition to <u>alleviate poverty</u> . For the poor, it is one of many items in a conducive investment climate to leverage their ability to accumulate assets, and access public services and credit markets.	The Project will not only provide secure property rights to the poor under Components 2 and 3 but will also facilitate communication and public education tools and market-relevant information under Component 4 to leverage assets to be used for local infrastructure services and credit guarantees.



<p><u>Monitoring and evaluation</u> is critical because of the pervasive implications of property rights reform and the need to ensure system effectiveness and sustainability as well as institutional transparency and accountability.</p>	<p>Under Component 5, the Project will develop a monitoring and evaluation system that ensures participation and consultation of key stakeholders on a regular basis. Engagement of beneficiaries and private sector/civil society stakeholders will be ensured as part of an Advisory Committee that confirms monitoring and evaluation findings. Appropriate remedial actions will be taken during implementation to ensure that expected outcomes materialize.</p>
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## 9. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	Yes	No
<u>Environmental Assessment</u> ( <a href="#">OP/BP/GP 4.01</a> )	[ ]	[x ]
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	[ ]	[ x]
Pest Management ( <a href="#">OP 4.09</a> )	[ ]	[x ]
Cultural Property ( <a href="#">OPN 11.03</a> , being revised as OP 4.11)	[ ]	[x ]
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	[ ]	[x ]
Indigenous Peoples ( <a href="#">OD 4.20</a> , being revised as OP 4.10)	[ ]	[x ]
Forests ( <a href="#">OP/BP 4.36</a> )	[ ]	[x ]
Safety of Dams ( <a href="#">OP/BP 4.37</a> )	[ ]	[x ]
Projects in Disputed Areas ( <a href="#">OP/BP/GP 7.60</a> )*	[ ]	[x ]
Projects on International Waterways ( <a href="#">OP/BP/GP 7.50</a> )	[ ]	[x ]

## 10. List of Factual Technical Documents

Not Applicable

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\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

