

PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB1391

Project Name	REAL PROPERTY RIGHTS CONSOLIDATION PROJECT
Region	LATIN AMERICA AND CARIBBEAN
Sector	General public administration sector (100%)
Project ID	P078894
Borrower(s)	REPUBLIC OF PERU
Implementing Agency	
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

a. Key Development Issues

Comprehensive property rights policies. Formalization converts *de facto* situations into legal rights while generating social inclusion and economic growth. However, it does not address the main causes of informal settlements: unsatisfied land and housing demands by the poor, lack of transparent mechanisms for transferring State-owned land, inefficient functioning of private real estate markets, and ineffective protection of property rights.

The development of a coherent property rights policy that addresses these issues requires that national and municipal authorities, in conjunction with key stakeholders in the private sector and civil society, develop a single policy-making agenda around the following topics: (a) development of simplified, deregulated procedures for the allocation of State-owned land; (b) deregulation of real estate markets combined with the application of pro-poor mechanisms to avoid negative externalities on the poor; (c) administrative simplification in order to reduce transaction costs of property transfers and to promote private investment (e.g. urban planning and building regulations); (d) adaptation of urban control requirements (including standards and procedures) to the needs of the low-income population; and (e) close inter-institutional coordination mechanism among various levels of Government to offer multi-pronged options to stimulate the supply of land for residential use at affordable prices.¹

Unified property registry. Law No. 27755 established the Real Property Registry (RP), under the National Superintendency of Public Registries (SUNARP), and mandated the gradual merger into RP of the existent property registries (Urban Property Registry [RPU], Immovable Property Registry [RPI]) and the Special Section of Rural Properties [SEPR] in RPI.² The law established a Commission to coordinate the administrative and technical aspects of the unification process, chaired by SUNARP and including representatives of the National Commission for the Formalization of Informal Property (COFOPRI), RPU, PETT, the Notaries and Lawyers Associations. RP has already integrated the front-offices of the old

¹ The Urban Property Rights Project (UPRP), which finished implementation in June 2004, financed several studies to identify the most appropriate tools to deal with these issues, but was not designed to address them.

² This section records the titles issued by Special Project for Rural Properties Titling (PETT), an initiative financed by the Inter-American Development Bank (IADB).

registries, dispelling the perception of different levels of quality and security in registry services provided.³ This integration was accomplished in a record time (less than two years) through the strong leadership of SUNARP's management, an agency recognized as a front-runner in State modernization efforts.

Registry unification will follow the simplification, deregulation and low-cost access principles of Law No. 27755 by system operators like notaries and lawyers associations. The integration of information systems⁴ will be complemented by SUNARP's National System of Property Registry Recording (IRCN) project, an initiative that pursues country-wide connectivity of registry offices through intranet facilities and a single technological platform. To assure accessibility of registry services by the poor, the registry integration process will be complemented by: (a) more registry offices near poor settlements;⁵ and (b) low transaction costs.

Modern cadastre system. Law No. 28294 created a National Integrated Cadastre System that governs the integration of the standards, nomenclature and technical processes of different cadastre-generating entities at the national and local levels. The System will operate through a National Cadastre Board chaired by SUNARP that comprises representatives from Regional Governments, Provincial and District Municipalities, National Geographic Institute (IGN), National Culture Institute (INC), COFOPRI and PETT, and a Technical Secretariat, located in SUNARP. The Board is empowered to: (a) determine the System's policies; (b) approve mandatory directives for real property cadastre activities; (c) approve agreements for the collection, update and maintenance of cadastral information; (d) establish standards and technical norms; and (e) determine the information and communications technology (ITC) systems that will integrate the cadastral information generated by the System members. Based on this national nomenclature, District Municipalities will generate a Single Cadastre Code (*Código Único Catastral*) for each property and will commission cadastral mapping.

The new System will change the way the real property registry operates: RPI parcel identification processes relied on written descriptions, whereas SEPR depended on the cadastral support provided by the Ministry of Agriculture (MAG). RPU was the only real property registry that integrated a cadastral function within its regular operations. Therefore, the establishment of the National Integrated Cadastre System provides an excellent opportunity to build on the experience accumulated by RPU and develop a comprehensive approach for RP. The main challenge of a modern cadastre system is to keep it up-to-date in spite of frequent transactions, aggregations or subdivisions. Multiple, non-connected cadastrals are costly to maintain and most likely would be outdated within a short period of time. The Project will support the new System to ensure close linkages among institutions working on cadastrals so as to reduce costs and integrate information databases, and promote maintenance of each block/layer of information at the most cost-effective level.

Unfinished formalization agenda. COFOPRI estimates formalization demand to be around 1,150,000 urban and peri-urban properties. The UPRP originally focused in areas that allowed mass-scale operations like human settlements; today the remnant demand is geographically dispersed, comprises midsize and small cities or involves more complex tenure issues that may not be suitable for mass methods. The economies of scale realized by UPRP during 1997-2000 may not be present in the future; in spite of the institutional capacity acquired by COFOPRI further adjustment to current processes may be required to address this remnant demand, as well as cost ceilings and cost-benefit ratios that make further formalization economically viable.

³ From approximately 6 million properties in the whole country, about 3 million were recorded in RPI and 1 million in RPU. About 2 million properties remain outside the registry system, more than 1 million in urban areas.

⁴ Registry Information System [SIR] for RPI and SEPR, and Property Registry Automatic System [SARP] for RPU.

⁵ RPI operated 58 offices (11 registry offices and 47 reception offices), while RPU only operated 20 registry offices.

The Project will support appropriate coordination between COFOPRI as a national technical assistance provider, and the Provincial Municipalities (entrusted with formalization responsibilities by Laws No. 27972 and 28391) by supporting specialized local teams responsible for formalization in human settlements and other modalities of informal possession. COFOPRI will ensure the same quality standards for formalization processes are applied throughout the country.

Expanded registry and credit culture. Registry culture has not been sufficiently developed in Peru where registration is not mandatory but only a requirement for public disclosure (*registro declarativo*); title validity depends on the validity of the underlying contractual transaction; nevertheless, absence of registration generates risks for the parties to the contract because the rights resulting from the transaction cannot be made effective vis-à-vis third parties until registration makes such rights universally enforceable (*erga omnes*). Legislative proposals for mandatory registration (*registro constitutivo*) have not been approved by Congress.

The credit and registry culture programs under the UPRP introduced social marketing strategies and tools to generate new attitudinal and behavioral patterns that complemented the reforms supported by that project. This approach will be expanded under the Project to strengthen collaborative ventures between SUNARP, COFOPRI, the Banking Association (ASBANC), municipal governments and community-based organizations to: (a) support the empowerment of the poor by providing access to accurate and relevant information; (b) utilize communication and information channels that reach the poor; and (c) engage Project beneficiaries as active development agents during the implementation of Project-supported reforms.

B. 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 international experience on similar projects and close coordination with the IADB-financed PETT will help the 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.

Sustained GoP support. Project design has been tailored to respond closely to GoP's specific requests for support. In particular, several factors have generated a positive momentum for further property rights reforms. First, demand is growing to tackle the revenue generation capacity of the public sector, particularly at the municipal level. Second, the Presidency of the Council of Ministers (PCM), the Ministry of Economy and Finance (MEF), and the Minister of Justice (MINJUS) are committed to support the proposed reforms. The Project will be reviewed by the Investment Project Office of PCM and the Investment Office of MEF, and the Minister of Justice has confirmed his leadership of this initiative by participating in several preparation missions. The commitment of the municipal governments is confirmed by the signature of 92 Participation Agreements between COFOPRI and Provincial Municipalities.

The UPRP was implemented against a backdrop of political change beginning with the second Fujimori Administration (1996-2000), extending through the Paniagua Transitional Administration (2000-2001) and now under the Toledo Administration (2001-present). In each Administration change, the UPRP development objectives were validated in close consultation with MEF. GoP's request for a follow-up operation was received at the time of the preparation of the CAS and was included in the lending

program. COFOPRI and SUNARP have worked as a single team in the design of the components and in the preparation of the profile, pre-feasibility and feasibility studies required by the National Public Investment System.

Bank's global, regional and country experience. During Project design, the Bank contributed with the experience of other countries/projects on legal, regulatory and institutional reforms related to property rights, policy formulation and implementation, and capacity-building. Specifically in Latin America and the Caribbean Region (LCR), the Bank is supporting projects with policy, registry, titling and cadastre components in Bolivia, El Salvador, Guatemala, Honduras, Nicaragua and Panama; best practices of such projects have been reflected in Project design (see table 4), as well as the Bank's previous involvement in property rights issues in Peru through the UPRP.⁶

2. Proposed objective(s)

The main objective of the Project is to consolidate a comprehensive and sustainable system of property rights recognition and protection in Peru that 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 Governments and key stakeholders in the private sector and civil society.

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) establish a modern real property system based on a unified registry integrated with a national cadastre; (c) address the remnant demand for property formalization, through a national strategy, municipal strengthening and tailor-made formalization plans; 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. Preliminary description

Component 1. Comprehensive Real Property Rights Policies

This component will strengthen the property rights policy-making process in Peru to preserve the achievements of the legal, regulatory and institutional reforms pursued under the Urban Property Rights Project (Loan No. 4384-PE) (UPRP), and to ensure that further reforms will have a positive socio-economic impact that is equitable and sustainable. 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. Modern Real Property Registry-Cadastre System

This component will 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 the development of a modern cadastre base.

Component 3. Decentralized Formalization

This component will continue 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

⁶ Urban Property Rights Project, Implementation Completion Report (ICR), December 27, 2004, p.25-28.

the diverse needs of informal owners; (b) justified in cost-benefit terms; and (c) involving capacity-building and technology transfer for Provincial Municipalities. A national strategy will redefine formalization mechanisms, determine new priorities and validate new products 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, the Peruvian State will avoid reversion to informality.

Component 4. Investment and Credit Promotion

This component will support the economic utilization of property rights and foster real property-related economic activity in formalized areas. Specific aims are: (a) reducing information gaps between formalized owners, and credit and service providers; (b) understanding real estate markets in marginal areas in order to identify measures to encourage, develop and facilitate real property transactions and investments; and (c) developing strategic alliances among the public and private sectors to promote business development in formalized areas and facilitate investments in infrastructure and services.

Component 5. Project Management, Monitoring and Evaluation

This component will help achieve effective and efficient Project implementation. It supports standard Project management, monitoring and evaluation activities, as well as: (a) full-fledged civil society participation; and (b) specific monitoring and evaluation activities. Studies and surveys will be financed in order to better understand the socio-economic benefits and the long-term impact of property formalization, including follow-up surveys and studies to compare results with the ones carried out under the UPRP.

4. Safeguard policies that might apply

N/A

5. Tentative financing

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

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