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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
THE REAL PROPERTY RIGHTS CONSOLIDATION PROJECT
(LOAN NUMBER 7368-PE)
MARCH 14, 2006
TO THE
REPUBLIC OF PERU
JUNE 7, 2011

ABBREVIATIONS AND ACRONYMS

AOP	Annual Operating Plan
COFOPRI	Agency for the Formalization of Informal Property (<i>Organismo de Formalización de la Propiedad Informal</i>)
GoP	Government of Peru
ICB	International Competitive Bidding
IGN	National Geographical Institute (<i>Instituto Geográfico Nacional</i>)
ITC	Information and Telecommunications Technologies
MEF	Ministry of Economy and Finance (<i>Ministerio de Economía y Finanzas</i>)
PAD	Project Appraisal Document
PCU	Project Coordinating Unit
PDO	Project development objective
PP	Procurement Plan
RfP	Request for Proposals
RP	Real Property Registry (<i>Registro de Predios</i>)
SARP	Property Registry Automatic System (<i>Sistema Automatizado de Registro Predial</i>)
SIR	Registry Information System (<i>Sistema de Información Registral</i>)
SUNARP	National Superintendency of Public Registries (<i>Superintendencia Nacional de Registros Públicos</i>)
UPRP	Urban Property Rights Project

Regional Vice President:	Pamela Cox
Country Director:	Laura Frigenti
Sector Manager:	Veronica E. Zavala Lombardi
Task Team Leader:	David F. Varela

**PERU
REAL PROPERTY RIGHTS CONSOLIDATION PROJECT**

CONTENTS

	Page
A. SUMMARY	4
B. PROJECT STATUS.....	4
C. PROPOSED CHANGES	6
Results Framework/Indicators	6
Institutional arrangements	6
Financing	6
TABLE NO.1: PROJECT COSTS BY COMPONENT, CURRENT VS. REVISED (IN USD MILLIONS).....	7
Reallocation	8
TABLE NO.2: ALLOCATION PER CATEGORY OF EXPENDITURE, AND PERCENTAGE OF FINANCING	8
Closing date.....	9
Fiduciary Arrangements.....	9
Implementation schedules.....	9
D. APPRAISAL SUMMARY.....	9
ANNEX 1: RESULTS FRAMEWORK AND MONITORING	10
PERU REAL PROPERTY RIGHTS CONSOLIDATION PROJECT.....	10

REAL PROPERTY RIGHTS CONSOLIDATION PROJECT RESTRUCTURING PAPER

SUMMARY

1. This document proposes changes in the implementation arrangements, cost estimates, expenditure allocations, closing date and results framework of the Real Property Rights Consolidation Project (the Project) and the corresponding amendment to the Loan Agreement between the Republic of Peru (the Borrower) and the International Bank for Reconstruction and Development (the Bank) dated November 3, 2006, as amended to date (the Loan Agreement). These changes have been requested by the Ministry of Economy and Finance of the Borrower (MEF) as a result of a detailed Project review conducted in conjunction with the Agency for the Formalization of Informal Property (COFOPRI) and the Superintendency of National Public Registries (SUNARP).

2. The proposed changes aim at consolidating Project achievements and ensuring Project sustainability after closing. The proposed modifications include: (i) changes in implementation arrangements following the decision of MEF to convert the Project Coordination Unit (PCU) into an autonomous budget-holder unit; (ii) changes in component-specific costs; (iii) changes in disbursement arrangements to introduce a new disbursement category, reallocation of Loan proceeds, and an increase in the disbursement percentage (up to 82% of the expenditure categories) which is consistent with Peru's country financing parameters to provide adequate financing for selected activities; (iv) extension of the Closing Date by six months to June 30, 2012 to complete critical Project activities and ensure satisfactory outcome at exit; (v) changes to selected indicators of the results framework to ensure closer alignment of the contribution of Project-financed activities to the achievement of the Project Development Objective (PDO); and (vi) revisions to the Project Annual Operating Plans (AOPs) and Procurement Plans (PPs) as a result of the above changes.

3. The PDO and the description of components, subcomponents and activities remain unchanged. The results framework is revised only to drop or modify some output and result indicators.

PROJECT STATUS

4. The Project was approved by the Board of Directors in March 14, 2006 and the Loan Agreement was signed in November 3, 2006. It was amended on November 20, 2006, to reflect a reduction in the commitment fee payable by the Borrower, and on December 19, 2007, to: (i) modify the role of COFOPRI in connection with Part B of the Project; (ii) modify the role of Provincial Municipalities in connection with Parts B.1 and B.2 of the Project; (iii) modify the composition of the Steering Committee; (iv) extend the definition of Operating Costs under the Project; and (v) modify the description of Parts B.1 and B.2 of the Project, as to reflect the new role of COFOPRI. The Loan Agreement was

further amended on November 4, 2010 to allow the use of electronic means for delivering applications for withdrawals and supporting documentation.

5. The Project was originally designed for an implementation period of 5 years from January 2007 to December 2011. However, due to the lack of a PCU team throughout most of 2007, and the need to process an amendment to the Loan Agreement to reflect the impact of the legislative decisions that devolved formalization and cadastre powers to COFOPRI (December 2007), full-fledged implementation only started in January 2008.

6. In spite of some delays and implementation issues, the Project has been performing satisfactorily for most of the last four-year period. To date, with 68% of the IBRD loan disbursed, key outcomes include the establishment and operationalization of a multi-sectoral commission, average cost of titling kept below US\$100, about 416,000 properties cadastred and 45 district municipalities trained on cadastre services. By component, the following have been achieved:

(a) Comprehensive Real Property Rights Policies Component. This component has: (i) strengthened the policy-making process on property rights in Peru to preserve the achievements of the legal, regulatory and institutional reforms pursued under the previous Urban Property Rights Project (UPRP); and (ii) ensured that further policy reforms will lead to equitable and sustainable socio-economic outcomes. It has financed the technical assistance required to facilitate real property rights knowledge management, and to prepare sound legal and regulatory reform proposals. Topical areas have included inter-institutional coordination in a decentralized governance framework, access to affordable land, land use planning for municipalities, and the linkages between real property rights institutions and the financial and housing sectors.

(b) Decentralized Formalization and Cadastre Services Provision Component. This component has provided formalization and cadastre services in urban and peri-urban areas, through activities: (i) adapted to the diverse needs of informal owners; (ii) justified in cost-benefit terms; and (iii) involving capacity-building for Provincial and District Municipalities. The Project has continued promoting administrative simplification to recognize and protect property rights to ensure that formal rules interact with social reality and reduce transaction costs for the Government of Peru (GoP) to avoid reversion to informality. It has financed titling and cadastre activities, capacity-building and technical assistance for local governments on formalization and cadastre services.

(c) Registry Services Provision Component. This component has supported the integration of real property data and the establishment of the national cadastre system in SUNARP's Property Registry (RP) to improve: (i) the quality of real property registry services; and (ii) access for the Peruvian population. It has financed the adoption by SUNARP of a real property registry information system and geo-referencing activities by the National Geographic Institute (IGN).

(d) Formalization Benefits Dissemination Component. This component has supported the economic utilization of formal property rights and fostered real property-related economic activity in selected areas. It has financed activities aimed at: (i) providing practical information on the linkage between registration and access to credit as a tool for

individual empowerment; (ii) reducing information gaps between formalized owners, and credit providers; (iii) understanding real estate markets in marginal areas in order to identify measures to encourage and facilitate real property transactions; and (iv) developing strategic alliances among the public and private sectors to promote business development and property respect in Project areas.

PROPOSED CHANGES

Results Framework/Indicators

7. The restructuring proposes changes to the Project's results framework and indicators. These changes aim at aligning more closely the contribution of individual Project activities with the achievement of the PDO. We are reducing the number of results indicators choosing only the ones that are most relevant in measuring the Project's desired outcomes. The revised indicators are described in detail in the table in Annex 1.

Institutional arrangements

8. The composition of the Steering Committee will be updated by replacing MINJUS (Ministry of Justice) by VIVIENDA (Ministry of Housing). The definition of COFOPRI will also be updated to reflect the latest legal provisions.

9. The restructuring will reflect MEF's decision to establish an "Executing Unit 002 – Real Property Rights Consolidation Project," as of January 2011 under COFOPRI's structure aimed at improving service delivery to the target populations. This new arrangement has important practical implications for the more effective execution of the Project, in particular a change in the capacity of the existent PCU, as autonomous budget holder, which should facilitate the procurement and financial management processes, as well as the internal coordination within COFOPRI. The definition of the PCU in the Loan Agreement will be amended accordingly. Because it is the same PCU, there was no need for a new assessment of implementation capacity. Recent evaluations of financial management and procurement capacity during supervision missions have been satisfactory. Since its inception, the PCU has operated under the provisions of the Loan Agreement No.7368-PE.

Financing

10. Project and Component Costs. The proposed restructuring will reflect a change in individual component costs. In particular, the total cost of implementing Components 1, 3 and 4 will be reduced while the total cost of Component 2 will be increased to support the completion of COFOPRI's titling activities in selected areas where substantial demand for formalization and cadastre services have been detected. The geographic scope of the project has been modified accordingly in the Annual Operating Plan and the Government has taken over responsibilities for some activities/areas with its own resources. Table No.1 summarizes the changes in the costs per component.

**Table No.1:
Project Costs by Component, current vs. revised (in USD
Millions)**

PERU REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

Component	Current (US\$)	Revised (US\$)
1. Comprehensive Real Property Rights Policies	0.36	0.58
2. Decentralized Formalization and Cadastre Services Provision	21.21	23.20
3. Registry Services Provision	15.00	13.22
4. Formalization Benefits Dissemination	2.05	1.42
5. Project Management, Monitoring and Evaluation	3.03	3.24
Total	41.66	41.66

11. Establishment of a new Expenditure Category - “Non-Consultant Services.” The activities included in the property registry information management system of Component 3 are critical for the achievement of the PDO but were delayed because the definition of the new property registration model took more time than originally expected.

12. While determining the appropriate disbursement and procurement procedures, it was found that not all the services required for the transfer of the property records to the new registration model meet the standards of “consultants’ services,” as these services are more mechanical and repetitive than intellectual and analytical. As a consequence, the Bank procurement and financial management specialists agreed to establish a new expenditure category for “Non-Consultants’ Services,” to finance the services required for the migration of property registry records to the new registration model developed under the Project.

13. In order to expedite the migration of 5.8 million property registry records and ensure the completion of this activity critical for the consolidation of the property rights system in Peru, this activity will be carried out through two separate procurement processes: Migration by Lots – Batch Processing through Quality and Cost-Based Selection (QCBS) and Digitalization of Records through International Competitive Bidding (ICB).

Reallocation

14. The proposed restructuring will require reallocations of the proceeds of the Loan across categories of expenditure as presented in detail in the table in Table No.2. The revised PP has shifted US\$1 million from Components 1, 3 and 4, to Component 2 in order to adequately finance formalization services demand previously identified and complete COFOPRI's titling component taking into account the adjustment to the geographical scope of the Project. The new disbursement percentages take into account Country Financing Parameters and applicable tax rates for goods or services. The disbursement percentage for all expenditure categories will be increased from 65% to 82%. The project costs per component (as per Table No.1) have been duly revised to reflect the overall increase in disbursement percentages.

15. Proceeds for *Peru, REAL PROPERTY RIGHTS CONSOLIDATION PROJECT, Loan No.7368-PE, P078894* will be reallocated as follow:

**Table No.2:
Allocation per category of expenditure, and percentage of
financing**

PERU REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

Category of Expenditure		Allocation		% of Financing	
Current	Revised	Current	Revised	Current	Revised
1. Goods		4,585,370	5,285,714	65%	82%
2. Consultants' services (including audits)		14,054,470	13,180,436	65%	82%
3. Training		3,649,705	19,194	65%	82%
4. Operating Costs		2,647,955	1,247,090	65%	82%
5. Front-end fee		62,500	62,500	Amount payable pursuant to Section 2.04 of this Agreement	Amount payable pursuant to Section 2.04 of this Agreement
6. Premia for Interest and Interest Rate Collars		0	0		Amount payable pursuant to Section 2.09 (c) of this Agreement

	7. Non-consulting services	0	5,205,066		82%
TOTAL		25,000,000	25,000,000		

Closing date

16. The restructuring proposes an extension of the closing date for six months, from December 31, 2011 to June 30, 2012. This is the first extension of the Closing Date. This extension will enable the completion of critical Project activities under Components 3 and 4, and thereby ensure the achievement of the desired project outcomes. The Task Team has confirmed that this request meets the Bank’s internal policy requirements for Closing Date extensions because: (a) the Project objectives continue to be achievable; (b) the performance of the implementing agencies (COFOPRI and SUNARP) is satisfactory; (c) the Borrower and the Bank have agreed in writing to a specific action plan and schedule to complete the project.

Fiduciary Arrangements

17. The fiduciary arrangements as well as the fiduciary risks remain unchanged and therefore no changes to the Disbursement Letter are required. However, the PP has been revised to account for the changes proposed in this restructuring paper.

Implementation schedules

18. Following the restructuring process, a detailed AOP and PP have been agreed with the GoP to facilitate satisfactory and timely completion of the restructured project.

D. APPRAISAL SUMMARY

19. The proposed restructuring does neither change the Project scope nor technical analyses. Likewise, it does not raise new social or environmental issues or trigger new risks or exceptions to Bank policies. The change in implementation arrangements has been appraised and found acceptable to the Bank. The adjusted project costs per component and disbursement percentages do not significantly alter the project's economic and financial analysis. The project is also expected to integrate a higher number of real property cadastre units and registry records.

ANNEX 1:

Results Framework and Monitoring

PERU REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

Project Development Objective (PDO):												
The main objective of the Project is to consolidate a decentralized and sustainable quality real property rights system that facilitates access for the Peruvian population. This system will enhance the welfare of real 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 society. The proposed system will also provide support to the ongoing decentralization program of GoP through the institutional strengthening of Participating Municipalities.												
	Core 2	Status 3	Baseline	Target Values					Data Collection and Reporting			
				YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
PDO Indicators										CAS progress reports (Every two years). SUNARP, COFOPRI and IGN annual reports.	COFOPRI and SUNARP legal and regulatory framework documents. Studies/surveys financed by the Project.	SUNARP, COFOPRI, IGN.
Appropriate legal, regulatory and institutional framework for real property rights protection and promotion adopted and operational.		D										
Low transaction cost of formalization and cadastre for users in terms of out-of-pocket expenditures and time.		D										
Low formalization and cadastre costs for GoP (Project average titling unit cost in US Dollars).		R	64	68	73	66	64	64				
Increased number of SUNARP users and internet services		D										
Increased number of		R	0	0	0	0	3,300,000	5,823,770				

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	Core 2	Status 3	Baseline	Target Values					Data Collection and Reporting		
				YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
integrated real property cadastre and registry records (Number of property registry records under a new registry model).											
Average property value increase about US\$550		D									
Results Indicators for Each Component											
Component One:											
One (1) multi-sectoral commission established and operational.		C	1	1	1	1	1	1	Bank supervision mission reports (bi-annual).	COFOPRI, SUNARP and IGN legal and regulatory framework documents. Studies/Surveys financed by the Project.	COFOPRI.
Diagnostic studies finalized (including subjects like cost-benefit, credit practices and land allocation).		R	0	0	0	3	3	3			
Workshops held with key stakeholders on real property rights issues.		R	0	1	2	3	3	3			
Legal and regulatory reform proposals identified, prepared and agreed upon on real property rights, land administration and allocation, investment and credit promotion and inter-institutional coordination.		R	0	0	0	2	3	3			
Component Two:											
National capacity-building strategy developed, including new formalization processes									PCU surveys COFOPRI annual reports	Strategy Paper	COFOPRI (including data gathered from

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	Core 2	Status 3	Baseline	Target Values					Data Collection and Reporting			
				YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
and partnerships.												Provincial and District Municipalities)
80 Provincial Municipalities provided training on formalization services by COFOPRI		R	0	0	0	0	40	80				
Approximately 400,000 lots formalized by COFOPRI		R	0	69,248	163,311	264,790	398,952	398,952				
Approximately 300,000 titles issued by COFOPRI.		R	0	57,635	129,630	224,393	300,000	300,000				
COFOPRI's Project Average titling unit costs not higher than \$100 per title.		R	64	68	73	66	64	64				
56 District Municipalities provided training on cadastre services by COFOPRI.		R	0	17	31	45	56	56				
Approximately 536,000 properties cadastered by COFOPRI.		R	0	123,909	238,073	415,778	535,639	535,639				
Component Three: Improved services to registry users.									SUNARP client surveys (annual). SUNARP annual reports. Bank supervision mission reports (bi-annual).	Studies/Surveys financed by the Project. SUNARP registry records.	SUNARP.	
5,823,000 million property registry records under a new registry model.		R	0	0	0	0	3,300,000	5,823,770				
New publicity services		D	0	0	0	0	0	0				

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	Core \2	Status \3	Baseline	Target Values					Data Collection and Reporting			
				YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
provided (summary sheets).												
SUNARP-RP publicity services on-line no less than 67% of total publicity services.		D	0	0	0	0	0	0				
SUNARP-RP average duration of registration of property transaction in SUNARP-RP no longer than 5 days.		D	0	0	0	0	0	0				
45 permanent continuous monitoring GPS stations installed.		R	0	2	25	45	45	45				
4,955 control points added to geodetic network.		C	0	764	3,350	4,955	4,955	4,955				
Component Four: Evidence of socio-economic impact:									PCU surveys (annual). COFOPRI reports (bi-annual).	Studies/Surveys financed by the Project. SUNARP-RP registry records. COFOPRI/Municipalities formalization/cadastral data. CIP/Real Estate Exchange Data.	COFOPRI and SUNARP	
124,000 property owners and 102,000 high school students reached by registry culture campaign.		C	0	0	4,948	32,487	124,000	124,000				
Satisfactory evaluation of cultural appropriateness of formalization and cadastre services to indigenous peoples and women.		C	0	0	0	6,300	102,000	102,000				
8,000 micro-entrepreneurs and 99,000 high school students obtain access to		C	0	0	0	1,378	8,000	8,000				
			0	0	0	6,300	99,000	99,000				

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	Core 2	Status 3	Baseline	Target Values					Data Collection and Reporting			
				YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
credit information.												
Increased access to credit evidenced by number and amounts of credit obtained by formalized users, with or without mortgages.		D										
129,000 recently formalized owners use real property exchange.		C	0	0			30,000	129,000				
855 community leaders and 60,000 high school students reached.		C	0	0	0	768	855	855				
			0	0	0	6,300	60,000	60,000				
Component Five: Annual operating plans, progress reports, and ICR contribution started 3 months before due date.		C	N/A	Sep.	Sep.	Sep.	Sep.	Sep.	Bi-annual progress reports delivered by PCU to the Bank. Bank Project supervision reports (bi-annual)	Consultants' reports. PCU reports. Independent impact evaluation.	PCU.	
Annual operating plans, progress reports, and ICR delivered on time. Annual reviews and mid-term review carried out on time.		C	N/A	Dec.	Dec.	Dec.	Dec.	Dec.				
TORs for independent impact evaluation and consultant contracted by December 2009.		C	N/A					Jun.				
Periodic evaluations conducted on time.		C	N/A	Nov.	Nov.	Nov.	Nov.					

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				Target Values					Data Collection and Reporting		
	Core \2	Status \3	Baseline	YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Disaggregated socio-economic information generated by the Project and user feedback utilized in decision-making.		D									

Notes

\1 Entered for the years data would be available, not necessarily annually.

\2 Indicates whether the indicator is a Core Sector Indicator (see further <http://coreindicators>)

\3 D=Dropped; C=Continue; N= New; R=Revised

