

Document of
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Report No: 34988-PE

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF USD 25 MILLION
TO THE
REPUBLIC OF PERU
FOR A
REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

February 16, 2006

Poverty Reduction and Economic Management
Country Managing Unit for Bolivia, Ecuador, Peru and Venezuela
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 18, 2006)

Currency Unit = Nuevos Soles (S/.)

S/.1.0 = US\$0.29

US\$1.00 = S/3.37

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADR	Alternative Dispute Resolution
AOP	Annual Operating Plan
ASBANC	Banking Association (<i>Asociación de Bancos</i>)
CAF	Andean Development Corporation (<i>Corporación Andina de Fomento</i>)
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CIP	Positive Information Bureau (<i>Central de Información Positiva</i>)
COFOPRI	Commission for the Formalization of Informal Property (<i>Comisión de Formalización de la Propiedad Informal</i>)
CPAR	Country Procurement Assessment Report
CQ	Consultant Qualifications
CSO	Civil Society Organization
DCDPL	Decentralization and Competitiveness Development Policy Loan
ESSALUD	Social Security Institute (<i>El Seguro Social de Salud</i>)
FEF	Front-end Fee
FMRs	Financial Management Reports
FSL	Fixed Spread Loan
GoP	Government of Peru
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICR	Implementation Completion Report
INACC	National Mining Concessions and Cadastre Institute (<i>Instituto Nacional de Concesiones y Catastro Minero</i>)
IRCN	National System of Registry Recording (<i>Inscripción Registral con Competencia Nacional</i>)
IADB	Inter-American Development Bank
IGN	National Geographical Institute (<i>Instituto Geográfico Nacional</i>)
ILD	Freedom and Democracy Institute (<i>Instituto Libertad y Democracia</i>)
INC	National Culture Institute (<i>Instituto Nacional de Cultura</i>)
ITC	Information and Telecommunications Technologies
LC	Least-Cost Selection
LCR	Latin America and Caribbean Region
MAG	Ministry of Agriculture (<i>Ministerio de Agricultura</i>)
MEF	Ministry of Economy and Finance (<i>Ministerio de Economía y Finanzas</i>)
MINJUS	Ministry of Justice (<i>Ministerio de Justicia</i>)
MVCS	Ministry of Housing, Construction and Sanitation (<i>Ministerio de Vivienda, Construcción y Saneamiento</i>)
NCB	National Competitive Bidding
NGO	Non-Governmental Organization

NS	National Shopping
PAD	Project Appraisal Document
PCM	Presidency of the Council of Ministers (<i>Presidencia del Consejo de Ministros</i>)
PCU	Project Coordinating Unit
PETT	Special Program for Rural Land Titling (<i>Programa Especial de Titulación de Tierras</i>)
PIP	Project Implementation Plan
PNF	National Formalization Plan (<i>Plan Nacional de Formalización</i>)
PSW	Procurement of Small Works
QCBS	Quality and Cost-Based Selection
RENIEC	National Identification and Civil Status Registry (<i>Registro Nacional de Identificación y Estado Civil</i>)
RP	Real Property Registry (<i>Registro de Predios</i>)
RPA	Regional Procurement Advisor
RPI	Immovable Property Registry (<i>Registro de Propiedad Inmueble</i>)
RPU	Urban Property Registry (<i>Registro Predial Urbano</i>)
SARP	Property Registry Automatic System (<i>Sistema Automatizado de Registro Predial</i>)
SBN	Superintendency of National Assets (<i>Superintendencia de Bienes Nacionales</i>)
SBS	Superintendency of Banking and Insurance (<i>Superintendencia de Banca y Seguros</i>)
SEPR	Special Section of Rural Properties (<i>Sección Especial de Predios Rurales</i>)
SIAP	Integrated Financial Administration System (<i>Sistema Integrado de Administración Financiera</i>)
SIR	Registry Information System (<i>Sistema de Información Registral</i>)
SOEs	Statements of Expenditure
SUNARP	National Superintendency of Public Registries (<i>Superintendencia Nacional de Registros Públicos</i>)
SUNAT	National Superintendency of Tax Administration (<i>Superintendencia Nacional de Administración Tributaria</i>)
SUR	Unified Registration System (<i>Sistema Único Registral</i>)
TORs	Terms of Reference
UPRP	Urban Property Rights Project
WDR	Word Development Report

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REAL PROPERTY RIGHTS CONSOLIDATION PROJECT
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PERU

REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSPS

Date: February 16, 2006	Team Leader: David F. Varela / Jorge Luis Archimbaud
Country Director: Marcelo M. Giugale	Sectors: General public administration sector (100%)
Sector Manager/Director: Ronald E. Myers/ Ernesto May	Themes: Property rights / General public administration
Project ID: P078894	Environmental screening category: C
Lending Instrument: Specific Investment Loan	Safeguard screening category: S3

Project Financing Data			
<input checked="" type="checkbox"/> Loan <input type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:			
For Loans/Credits/Others (US\$m.): 25			
Total Bank financing (US\$m.): 25			
Proposed terms: FSL			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
BORROWER/RECIPIENT	16.60	0.00	16.70
IBRD	20.10	4.90	25.00
Total:	36.70	4.90	41.70
Borrower: Republic of Peru Responsible Agency: Commission for the Formalization of Informal Property (COFOPRI) and National Superintendency of Public Registries (SUNARP)			

Estimated disbursements (Bank FY/US\$m)									
FY	06	07	08	09	10	11			
Annual	2	4	6	8	4	1			
Cumulative	2	6	12	20	24	25			
Project implementation period: Start: June 30, 2006 End: June 30, 2011									
Expected effectiveness date: March 31, 2006									
Expected closing date: December 31, 2011									

Does the project depart from the CAS in content or other significant respects? <i>Ref. PAD A.3</i>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project require any exceptions from Bank policies? <i>Ref. PAD D.7</i>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Have these been approved by Bank management?	<input type="checkbox"/> Yes <input type="checkbox"/> No

Is approval for any policy exception sought from the Board?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project include any critical risks rated "substantial" or "high"? <i>Ref. PAD C.5</i>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the project meet the Regional criteria for readiness for implementation? <i>Ref. PAD D.7</i>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Project development objective *Ref. PAD B.2, Technical Annex 3*

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.

Building on the achievements of the UPRP, the Project will: (a) generate comprehensive real property rights policies through diagnostic studies, and legal and regulatory reform proposals; (b) address the remnant demand for property formalization and cadastre, through a national strategy and municipal strengthening; (c) establish a modern real property registry system based on reliable information and demarcation systems; and (d) support investment and credit promotion initiatives to empower the poor and facilitate the use of the poor's real property rights in a formal economy.

Project description *[one-sentence summary of each component] Ref. PAD B.3.a, Technical Annex 4*
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) and to ensure that further policy reforms will lead to equitable and sustainable socio-economic outcomes. It will finance the technical assistance required to facilitate real property rights knowledge management, and to prepare sound legal and regulatory reform proposals. Topical areas include 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.

Component 2. Decentralized Formalization and Cadastres Services Provision

The *objective* of this component is to provide formalization and cadastre services in 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 for Provincial and District Municipalities. 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 GoP be able to avoid reversion to informality. It will comprise the following subcomponents: planning of training activities by COFOPRI, capacity-building and technical assistance for local governments on formalization services, and capacity-building and technical assistance for local governments on cadastre services, and supervision of capacity-building activities by COFOPRI.

Component 3. Modern Real Property Registry Systems

The *objective* of this component is to support the integration of real property data and the establishment

of the national cadastre system in SUNARP-RP to improve: (a) the quality of real property registry services; and (b) access for the Peruvian population. This component supports SUNARP's real property registry information system and real property demarcation activities.

Component 4. Communications and Information about Formalization Benefits

The *objective* of this component is to support the economic utilization of formal property rights and foster real property-related economic activity in Project 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, and credit providers; (c) understanding real estate markets in marginal areas in order to identify measures to encourage and facilitate real property transactions; and (d) developing strategic alliances among the public and private sectors to promote business development and property respect in Project areas.

Component 5. Project Management, Monitoring and Evaluation

The *objective* of this component is to achieve successful Project implementation. It supports: (a) standard Project coordination; and (b) specific monitoring and evaluation activities, like (i) assessments of the transparency and accountability framework of COFOPRI and SUNARP-RP, including reviews of outreach and disclosure procedures, beneficiary selection mechanisms, and appropriateness of communications and educational tools; and (ii) evaluation of socio-economic outcomes, through: (A) continuous follow-up of poverty indicators in formalized areas; (B) assessment of market mobilization of real property rights in terms of transaction numbers and prices, credit and investment directed to formalized properties; and (C) review of the impact of Project communications and educational activities in terms of knowledge gains and behaviors changes in individuals and communities.

Which safeguard policies are triggered, if any? *Ref. PAD D.6, Technical Annex 10*

This Project is a follow-up of the Urban Property Rights Project (Loan No. SCL-43840 – UPRP). Section E.6 of the Staff Appraisal Report (SAR) for the UPRP mentioned that the project did not deal with environmental issues as described and identified by Bank's policy, and explained that no involuntary resettlement would take place. Section 4 of the ICR for the UPRP explained that in the case of possible risk areas or archeological sites, COFOPRI worked with the agencies in charge (National Culture Institute [INC] and National Civil Defense Institute [INDECI]) to ascertain whether formalization could move forward. In these specific cases, the decision to clear the sites for formalization was taken by INC or INDECI, as appropriate. Experience with safeguards policies under the UPRP was therefore satisfactory; the Operational Manual proved adequate to prevent any potential environmental or resettlement impact.

As in the case of the UPRP, the proposed Project will not deal with any environmental issue. Property targeted for formalization will only be small lots in State-owned land that was invaded before December 31, 2001, in urban and peri-urban areas (Property Formalization Law - Law No. 28391- Art. 1). The Project will not include the titling of environmentally significant lands (i.e., lands for productive use or in rural areas) that are governed by separate legislation and titled under PETT.

Following the UPRP precedent, the design of the decentralized formalization component will incorporate appropriate guidelines to prevent formalization from happening in risk areas (as mandated by Art. 21 and 22 of Supreme Decree No. 009-99-MTC and Art.18, Supreme Decree No. 013-99-MTC) or in or near archeological sites (as required by Art. 2.2.2 of Law No. 28391, Art. 1 of Supreme Decree No. 017-98-PCM and Art. 3 of Supreme Decree No. 046-98-PCM). Furthermore, the law specifically excludes from formalization land that constitutes a natural habitat (Law No. 28391, Art. 2.2). The Operational Manual will include sections to screen the above excluded areas out from titling under the project at the earliest stage of Project area surveying; no major change is anticipated to the provisions of the Manual for the UPRP, that were satisfactorily applied.

Significant, non-standard conditions, **if any**, for:

Ref. PAD C.7

Board presentation: N/A

Loan effectiveness: N/A

Covenants applicable to project implementation: N/A

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

a. Political context and sector policy

President Alejandro Toledo was elected to office in 2001 in the midst of an economic recession. The Toledo administration has shown an impressive ability to maintain macroeconomic stability while pushing ahead with a reform agenda. The economy has performed well although President Toledo has faced a difficult political context. His Government lacks a majority in Congress and cabinet turnover has been high, with five Prime Ministers and five cabinets in less than four years.

The Government of Peru (GoP)'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 informal arrangements for the poor, an essential function of an efficient and transparent State.

A key achievement of this Administration has been a redefined relationship between the national, regional and municipal authorities through decentralization of 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 three levels of government. As the decentralization process advances, responsibilities and resources will be gradually transferred to sub-national governments, and hence, strengthening this process has become a key focal point of Bank assistance. The GoP's 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.

Specifically, on urban land tenure, the Urban Property Rights Project (UPRP – Loan No. 4384-PE) achieved a substantial poverty-reduction impact.¹ It supported the GoP's implementation of major property rights reforms between 1998 and 2004,² 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 proposed Real Property Rights Consolidation 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 the 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 formalization³ taking into account the new institutional realities determined by decentralization: the

¹ 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.

² World Development Report, Chapter IV, Property Rights, 2005, p. 81.

³ 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.

Provincial and District Municipalities have moved to the “driver’s seat” of the formalization and cadastre processes.

The Project will address several issues in order to discourage 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 and cadastre programs, in selected remnant areas that require new cost-effective methodologies; (c) the full-fledged integration of spatial and legal property information records, to facilitate low-cost, easy access for the users; and (d) the effective economic utilization of property rights and enhanced economic activity in formalized areas. The Project will also 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) administers property information through a geo-referenced cadastral system; and (c) encourages participation and consultation.

Box No. 1 – Decentralization and competitiveness: two complementary policy objectives

Two key challenges for GoP’s development policy are to make the decentralization process work and to create the economic foundations for decentralized economic development through an improved investment climate, better market access and the promotion of internationally competitive industries. For regions to be the engines of increased growth, employment and reduced poverty, an effective decentralization process must be complemented with a regional and local competitiveness program. Decentralization can indeed be a powerful instrument to secure social, political and economic objectives but will only be sustainable if based on economic realities, with regions and municipalities building up their own growth potential through focused private sector development strategies.

The ultimate success of decentralization in Peru will be measured not by laws, procedures and processes but rather by the extent to which regional economic growth and employment are catalyzed. Regions must improve their competitiveness position to attract private investment and increase economic activity. Enhanced competitiveness requires: adequate and well maintained infrastructure; low production and logistics costs; better access for regional products to domestic and foreign markets; improved productivity in regional firms; a better mix of regional products; the adoption of quality standards; greater technological capabilities and innovation; enhanced export assistance and trade facilitation; and improved overall regional investment climates.

Recent data indicates that economic growth of the past three years has benefited regions outside of Lima and other traditional economic centers, suggesting that decentralization is already bearing fruits for stimulating a broader-based platform for development in Peru. Therefore, institutional strengthening of local governments (like the one proposed under this Project) plays a key role in the development of the GoP’s decentralization agenda.

b. Sector-related Country Assistance Strategy (CAS) goal supported by the Project: (Document No.: Report No. 24205-PE - Date of latest CAS discussion: September 2002)

The Project will support the specific objectives of the 2002 Peru CAS as updated by the CAS Progress Report of 2004.⁴ The CAS first pillar aims at laying the foundation for sustainable growth and poverty reduction, and the third pillar aims at strengthening governance and helping build an accountable and efficient government that provides services accessible to all Peruvians. The Project will specifically support the decentralization of real property rights functions and provide the required institutional strengthening by: (a) formulating and applying comprehensive property rights policies regarding clarification of roles, functions and responsibilities of Municipal Governments; (b) supporting Provincial

⁴ Country Assistance Strategy Progress Report for the Republic of Peru, November 9, 2004, p. 14-15, 21, 27, and 29.

Municipalities' formalization; and (c) developing District Municipalities' cadastres. The CAS Progress Report notes that the Bank will continue supporting property rights reform through a new investment operation that builds on the success of the UPRP.

This Project will also build on the Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Report (CPAR) recommendations that identified the lack of transparency and efficiency as key obstacles to achieving social and economic development. GoP is now improving, with the support of the Bank and other international cooperation agencies, the areas of accounting, budgeting, monitoring, evaluation and reporting standards at all levels of government. The Bank's ongoing Technical Assistance Loans (TALs) for fiscal and social sector decentralization are instrumental to this effort. The Third Decentralization and Competitiveness Development Policy Loan (DCDPL III) will further support the consolidation of fiscal policy. The Project will complement these efforts at the level of District Municipalities through cadastres that enhance potential revenue generation, and urban planning and development applications.

The Project also supports the principles of the National Agreement (*Acuerdo Nacional*), a joint statement issued in July 2002 by GoP and representatives of Peru's major political parties, religious groups and civil society. The Agreement contains 29 State policies that articulate a national vision for the next 20 years and aims at accomplishing four objectives: (i) democracy and rule of law; (ii) equity and social justice; (iii) competitiveness; and (iv) efficiency, transparency and decentralization. The Agreement commits the parties to concrete actions in the area of democracy and rule of law, including respect to public and private property. The 7th State Policy specifically provides that GoP will consolidate long-term policies oriented to prevent, dissuade, sanction and eliminate social behaviors and practices that jeopardize public or private property. The Project is also linked to the Truth and Reconciliation Commission's recommendations since it will work in areas affected by the 1980s-1990s conflict (particularly in *Sierra* departments like Ayacucho, Huancavelica and Apurímac) and on the institutional capacity of the Peruvian State to provide better property rights services.

c. Sector issues to be addressed by the Project and strategic choices:

Comprehensive real property rights policies. Formalization converts *de facto* situations into legal rights while facilitating 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 real estate markets, and ineffective protection of property rights. Long-term sustainability of a consolidated property rights system depends on the formulation and adoption of policies designed to address these issues.

The development of a coherent property rights policy framework requires that national and municipal authorities, in conjunction with key stakeholders in the private sector and civil society, adopt a policy agenda around the following topics: (a) development of simplified, deregulated procedures to allocate State-owned land; (b) deregulation of real estate markets combined with the application of pro-poor policies and mechanisms; (c) administrative simplification in order to reduce transaction costs of property transfers and to promote private investment (e.g. taxes and other charges, urban planning and building regulations); (d) adaptation of urban control requirements (including standards and procedures) to the needs of low-income populations; (e) close inter-institutional coordination mechanisms among various levels of Government to offer multi-pronged options to stimulate the supply of land for residential use at affordable prices; and (f) dissemination of the policy agenda to potential beneficiaries and the public at large.

Unfinished formalization agenda. The National Commission for the Formalization of Informal Property (COFOPRI) estimates formalization demand to be around 1.4 million urban and peri-urban properties involving a population above 6 million Peruvians. 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; adjustments 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.

To assure the sustainability of a national real property rights system, appropriate coordination is essential between COFOPRI as a technical assistance provider that establishes nation-wide procedures and standards, and the Provincial Municipalities now entrusted with formalization responsibilities. Specialized joint local teams should be responsible for field work in informal possessions. COFOPRI has to ensure the same quality standards for formalization processes are applied throughout the country. Technical assistance in communications would be essential, given that the beneficiary groups are more likely to be isolated from standard information sources (by virtue of minority language and cultural membership) and require special materials (most of them bi-lingual).

Modern real property registry. The Real Property Registry (RP) has been established under the National Superintendence of Public Registries (SUNARP), through the gradual merger of the previous property registries (Urban Property Registry [RPU], Immovable Property Registry [RPI] and the Special Section of Rural Properties [SEPR] in RPI).⁵ A Commission created to coordinate the administrative and technical aspects of the unification process was chaired by SUNARP and included representatives of COFOPRI, RPU, PETT, and the notaries and lawyers associations. RP has already integrated the front-offices of the old registries, dispelling the perception of different levels of quality and security in registry services.⁶ 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. SUNARP will remain a financially independent and sustainable institution (it does not receive budget allocations from the National Treasury but retains the revenues it generates as registry tariffs).

Registry unification will follow simplification, deregulation and low-cost access principles, and involve system operators. The integration of information systems⁷ 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, the registry integration process has to be complemented by: (a) more registry offices;⁸ and (b) low transaction costs.

⁵This section records the titles issued by Special Program for Rural Properties Titling (PETT), an initiative financed by the Inter-American Development Bank (IADB).

⁶ From approximately 5.5 million properties in the whole country, about 2.4 million were recorded in RPI and 1.9 million in RPU. About 2 million properties remain outside the registry system, 1.4 million in urban and peri-urban areas. APOYO Consultoría, "Estudio de Factibilidad para el Proyecto de Consolidación de los Derechos de Propiedad Inmueble", Final Report, November 2005.

⁷ Registry Information System [SIR] for RPI and SEPR, and Property Registry Automatic System [SARP] for RPU.

⁸ RPI operated 58 offices (11 registry offices and 47 reception offices), while RPU only operated 20 registry offices. Currently, after the merger, the registries network is comprised by 58 registry offices and 23 reception offices. Under the IRCN around 187 offices will become operational in order to have accessible registry services in each Provincial Municipality.

Box No. 2. - Municipal Tax Administration

Municipalities have potentially dynamic, yet underutilized, tax bases and need adequate incentives to mobilize their own tax revenues. These taxes include the real property tax and the surcharge (*alcabala*) on transfers of real property. Tax revenues collected by local governments have remained low, representing only 0.3 percent of GDP in the last years, with no visible upward trend. Significant tax administration efforts are required to increase the tax base and revenues of the local governments.

A special local governments module (*Sistema Integrado de Administración Financiera* – SIAF-GL) to strengthen cadastre and property tax collection efforts was introduced with the support of the Second Decentralization and Competitiveness Development Policy Loan (DCDPL II). The SIAF-GL collection module is now in place in all Provincial Municipalities. It is also in place in over 600 District Municipalities. As of August 2005, the SIAF-GL cadastre module was installed in 20 provincial municipalities, and will be extended to other 77 Provincial Municipalities (40 percent of the total) in the near future. In parallel, Ministry of Economy and Finance (MEF) and the National Superintendency of Tax Administration (*Superintendencia Nacional de Administración Tributaria* (SUNAT) have developed a methodology for the calculation of fiscal targets. This methodology will reward actions linked to fiscal efforts, and not to higher revenues due to exogenous factors such as higher inflation or real GDP growth.

One of the main challenges of municipal tax administration strengthening is to find adequate incentives to increase tax collection at the sub-national level. To that end, the GoP is considering the establishment of a fiscal incentive for local governments linked to their efforts to increase tax revenues, consistent with the introduction of the SIAF-GL module on cadastre and revenues. This fiscal incentive will be introduced as an additional criterion in the distribution of *Fondo de Compensación Municipal* (FONCOMUN) through regulation.

The design of the cadastre subcomponent of the proposed Project (2.3) has been closely coordinated with the MEF unit in charge of SIAF-GL to ensure that the cadastrals developed with the technical assistance of COFOPRI are fully compatible with the overall purpose and particular features of SIAF-GL. To that end during project preparation significant progress was achieved in the design of a single cadastre card (*Ficha Catastral*) that will contain key data about properties within the jurisdiction of the Participating Municipalities that can be used by municipal tax authorities in the assessment and collection of property taxes and *alcabala*.

National integrated cadastre system. A National Integrated Cadastre System has been created to govern 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, the National Geographic Institute (IGN), 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 telecommunications technology (ITC) standards 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 SEPR and 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. Integrated systems are required to ensure close linkages among institutions working on cadastrals so as to reduce costs, exchange information databases, and promote maintenance of each block/layer of information at the most cost-effective level.

Information Barriers. Registry utilization has not been sufficiently expanded 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 been advanced with no success.

The registry and credit culture programs under the UPRP introduced social marketing strategies and tools to generate new attitudinal and behavioral patterns that complemented property rights reforms. This approach should be expanded and improved under the Project to strengthen collaborative ventures between COFOPRI, SUNARP, 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 for potential beneficiaries of registry services and credit; (b) utilize innovative communication channels to disseminate messages designed to reach the poor; and (c) engage Project beneficiaries as active development agents during the implementation of Project-supported reforms by providing them with opportunities to exchange initiatives and experiences through appropriate public meetings or media fora.

2. 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 will help GoP to complete the formalization agenda, and provide the basis for sustained protection of property rights and their mobilization through market mechanisms. The project has also been subject to the close scrutiny of GoP's national investment system (SNIP) at the profile, pre-feasibility, and feasibility stages. Some issues related to project objectives and components were raised and addressed during the SNIP process.

International experience. During Project design, the Bank contributed with lessons from its extensive experience in land regularization 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 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. Long-term engagement on land/property issues through investment operations and analytical work may have a very positive development impact as evidenced in Thailand and El Salvador (see table 4 below).

3. Higher level objectives to which the Project contributes

A reliable and accessible property rights system in Peru will promote growth and reduce poverty in a sustainable way, as tenure security stimulates private investment and fosters the process of slum upgrading. Secure property rights will also support improved governance by helping to build an accountable and efficient government that provides services accessible to all Peruvians. However, a modern property rights system is only a part of a wider policy spectrum; other key reforms (most of them

supported by Bank operations or other donors) will be needed to achieve these higher level objectives, like the modernization of the financial system and justice services, or administrative simplification.

B. PROJECT 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 will be efficiently and timely collected and recorded, and made available to the public. 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.

1. Lending instrument

GoP has requested support for this follow-up operation through a Specific Investment Loan (SIL) (as it was the case for the UPRP) to continue the long-term and far-reaching institutional reforms of the UPRP so as to consolidate real property rights recognition and protection, facilitate access to property rights by the poor, reduce transaction costs, and encourage the emergence of dynamic real estate markets. A SIL has been chosen because of the strong investment focus of the operation and the flexibility the instrument provides. Although a Technical Assistance Loan (TAL) would help to build institutional capacity, it would not have allowed sufficient investments to support the proposed reforms. An Adaptable Program Loan (APL) was also considered but GoP was not in a position to commit to a series of operations around a long-term program that would be implemented under subsequent administrations and preferred to consolidate the achievements of the UPRP in the medium term.

2. Project development objective and key indicators

1. Project development objective:

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.⁹ 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.

Building on the achievements of the UPRP, the Project will: (a) generate comprehensive real property rights policies through diagnostic studies, and legal and regulatory reform proposals; (b) address the remnant demand for property formalization and cadastre, through a national strategy and municipal strengthening; (c) establish a modern real property registry system based on reliable information and demarcation systems; and (d) support investment and credit promotion initiatives to empower the poor and facilitate the use of the poor's real property rights in a formal economy.

⁹ Access will be understood in terms of transaction costs of titling and registration, i.e. cheaper and faster service, more efficient, nearer to clients either physically or via online services, producing better quality documentation by integrating cadastral and legal information, in a culturally appropriate and sensitive manner.

2. Key performance indicators:

Table 1. Project Development Objective and Key Indicators

Project Development Objective	<ul style="list-style-type: none"> 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.
Key Indicators	<ul style="list-style-type: none"> Appropriate legal, regulatory and institutional framework for real property rights protection and promotion adopted and operational. Low transaction cost of formalization and cadastre for users in terms of out-of-pocket expenditures and time. Low formalization and cadastre costs for GoP. Increased number of SUNARP users and internet services. Increased number of integrated real property cadastre and registry records. Average property value increase about US\$550

Specific control groups and baseline for Project and non-Project areas have been established to measure Project impact.¹⁰

3. Project components

Table 2. Summary Project Description

Component	Category	Indicative Costs (US\$M)	% of Total	Bank-financing	% of Bank-financing
1. Comprehensive Real Property Rights Policies	Technical assistance	0.36	0.86	0.18	0.72
2. Decentralized Formalization and Cadastre Services Provision	Goods and services	21.21	50.91	13.71	54.86
3. Registry Services Provision	Goods and services	15.00	36.00	9.40	37.61
4. Formalization Benefits Dissemination	Technical Assistance	2.05	4.92	0.90	3.6
5. Project Management, Monitoring and Evaluation	Technical Assistance	3.03	7.25	0.80	3.2
Total Project Cost		41.65	100%	24.99	100%
Total Financing required					

Component 1 will develop the policy framework required for further property rights reforms. Components 2 and 3 are the investment pillars: Component 2 will continue with the “incremental approach” of the UPRP (moving into new areas only when the original areas have been mostly completed while being flexible to adapt to local conditions of limited institutional capacity and rapid social change), while Component 3 will support the completion of registry unification and the establishment of a national cadastre system. Component 4 is designed to ensure effective Project implementation across components, to mitigate risks and to support sustainability through communications instruments. Component 5 will comprise overall Project management, monitoring and evaluation, including civil society participation, transparency and accountability, and evaluation of socio-economic outcomes.

¹⁰ APOYO consultoría, “Estudio de Pre-factibilidad para el Proyecto de Consolidación de los Derechos de Propiedad Inmueble”, First Report, August 2005.

1. Comprehensive Real Property Rights Policies Component

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 policy reforms will lead to equitable and sustainable socio-economic outcomes. It will finance the technical assistance required to facilitate real property rights knowledge management, and to prepare sound legal and regulatory reform proposals. Topical areas include 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.

The *target groups* would be officials of all the agencies involved in property rights recognition and protection, users of such agencies, and qualified groups of civil society and the private sector. As a *result*, an appropriate policy framework for property rights recognition and protection will be developed. The *inputs* would be technical assistance for a multi-sectoral commission, diagnostic socio-economic studies, consensus-building and drafting of legal and regulatory reforms. The *outputs* are streamlined policies reflected in laws and regulations, improved capacity to develop cross-sectoral policies, and increased awareness of the linkages between poverty, land and housing issues.

2. Decentralized Formalization and Cadastre Services Provision Component

The *objective* of this component is to provide formalization and cadastre services in 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 for Provincial and District Municipalities. 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 GoP be able to avoid reversion to informality. It will comprise the following subcomponents: planning of training activities by COFOPRI, capacity-building and technical assistance for local governments on formalization services, and capacity-building and technical assistance for local governments on cadastre services, and supervision of capacity-building activities by COFOPRI.

The *target groups* are the employees of COFOPRI, and Participating Provincial and District Municipalities, and the beneficiaries of formalization and cadastre services. As a *result*, 144 Provincial Municipalities will conduct formalization processes and 427 District Municipalities will develop and operate real property cadastres. The *inputs* to the component include temporary technical and auxiliary staff, computer hardware/software, and training of staff of COFOPRI and the Participating Municipalities (both “learning by doing” and structured training). The *output* is about 536,000 properties cadastred, and about 471,000 titles issued.

3. Registry Services Provision Component

The *objective* of this component is to support the integration of real property data and the establishment of the national cadastre system in SUNARP-RP to improve: (a) the quality of real property registry services; and (b) access for the Peruvian population. This component supports SUNARP’s real property registry information system and real property demarcation activities.

Employees of SUNARP-RP and IGN as well as the users of registry-cadastre services constitute the *target group*. The *result* of this component is an improved ratio of cost/quality of registry services, and instruments to support equitable access to registry services. The *inputs* to the component are investments in computerized systems for the registry system, and a modern geodesic network, as well as training of

SUNARP-RP staff and users, and technical services. Expected *outputs* include more effective and efficient registration systems (including greater coverage and access), reduced transaction costs and, higher user satisfaction.

4. Formalization Benefits Dissemination Component

The *objective* of this component is to support the economic utilization of formal property rights and foster real property-related economic activity in Project 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, and credit providers; (c) understanding real estate markets in marginal areas in order to identify measures to encourage and facilitate real property transactions; and (d) developing strategic alliances among the public and private sectors to promote business development and property respect in Project areas.

Formalization beneficiaries and staff of financial institutions and Participating Municipalities will constitute the *target group*. As a *result*, beneficiaries will achieve enhanced access to productive investments. The *inputs* to the component are technical assistance, seminars, workshops, communications and educational tools, and software development. Expected *outputs* are increased registry utilization and property respect, reduced transaction costs, enhanced access to financial services for formalization beneficiaries, consolidation of COFOPRI's institutional role as facilitator/advocate of investment/credit in formalized areas.

5. Project Management, Monitoring and Evaluation

The *objective* of this component is to achieve successful Project implementation. It supports: (a) standard Project coordination; and (b) specific monitoring and evaluation activities, like (i) assessments of the transparency and accountability framework of COFOPRI and SUNARP-RP, including reviews of outreach and disclosure procedures, beneficiary selection mechanisms, and appropriateness of communications and educational tools; and (ii) evaluation of socio-economic outcomes, through: (A) continuous follow-up of poverty indicators in formalized areas; (B) assessment of market mobilization of real property rights in terms of transaction numbers and prices, credit and investment directed to formalized properties; and (C) review of the impact of Project communications and educational activities in terms of knowledge gains and behaviors changes in individuals and communities.

One of the main challenges of Project design was to preserve a pro-poor focus as well as the “good will capital” developed under the UPRP while ensuring that the economic benefits expected from formalization/cadastre materialize. To this end, an incentive framework was developed that specified the interests of the various stakeholders and how the Project may address them through specific activities.

To engage “inside” and “outside” interest groups in a productive dialogue and commit champions that can exercise a positive leverage on key institutions (COFOPRI-SUNARP-Notaries), Component 1 requires the direct leadership of MEF- Ministry of Justice (MINJUS). “Outside” groups actively involved in the process will include: small and medium enterprises, municipal governments, housing agencies, credit providers and formalized settlement leaders, NGOs established for the protection of property rights, etc. An Advisory Committee will be established during Project implementation.

The Project will also generate incentives for low-income groups (access to investment and credit services) through Component 4 so as to include them into a virtuous circle and counteract incentives to revert into informality. In order to discourage regression to informality, specific research will be conducted under Component 1 in order to better understand why some formalized groups regress to informality and some do not; the results obtained will serve to fine-tune the incentive framework during implementation.

Table 3. Criteria for Selection of Components

Component	Incentive for Reform	Strategic Relevance	Reform Stakeholders
1. Comprehensive Real Property Rights Policies	<ul style="list-style-type: none"> · Citizens demands for recognition/protection of real property rights. · GoP's interest in responding to these demands in a timely and effective manner. 	Since reforms have to overcome opposing vested interests, consensus-building will help policy-makers to gather support.	MINJUS. MEF. Small- and medium- sized enterprises. Municipal governments. Housing agencies. Credit providers. Informal possessors' leaders. NGOs.
2. Decentralized Formalization and Cadastre Services	<ul style="list-style-type: none"> · Potential beneficiaries demand for land and housing. · Institutional strengthening of key institutions at the national and local level. 	Decentralization implies changes within the State apparatus to improve service delivery at the local level.	COFOPRI. Municipal governments. Informal possessors' leaders. NGOs.
3. Registry Services Provision Component	<ul style="list-style-type: none"> · User support for quality/accessible registry/cadastre services. · GoP's interest in responding to these demands in a timely and effective manner. 	Modern registry/cadastre model reverts unbalance between privileged areas with easy access to registry-cadastre services and areas deprived of services.	SUNARP-RP. Notaries. Small- and medium-sized enterprises.
4. Formalization Benefits Dissemination	<ul style="list-style-type: none"> · Project beneficiaries expect enhanced welfare and economic opportunities. · Financial institutions wish to develop new products and expend credit markets. 	To promote a market-oriented environment that generates further support for reforms from stakeholders/beneficiaries.	COFOPRI. Municipal governments. Financial Institutions. Informal possessors' leaders. NGOs.

4. Lessons learned and reflected in the Project design

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).

Table 4. Lessons Learned

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 by 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 Cooperation 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 traditional geographical or functional subdivisions (urban, rural).	Extensive analytical work conducted under the UPRP was complemented during project preparation and will be continued under Component 1. On such basis, the Project will develop a policy framework for formalization/cadastre 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 strengthens 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 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/cadastre 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 formalization/cadastrs 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 formalization and helping District Municipalities to establish and operate cadastrs. Under Component 3 the Project will provide the technical assistance for SUNARP-RP to establish a unified national registry/cadastre system.
Although a single agency is preferred for registry and cadastre standard-setting and information gathering, this public monopoly must be <u>accountable to the public at large</u> .	The Project will support studies on the cost of the formalization/cadastre processes 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/cadastre information systems; and (iii) seamless maintenance of cadastral and registry information.	The national standards for Decentralized Formalization and Cadastre 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 cadastre 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.
<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.	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.

5. Alternatives considered and reasons for rejection

Alternative 1: A second UPRP. A follow-up urban land formalization Project along the lines of UPRP was ruled out because it would not sufficiently respond to the new decentralized institutional framework. Moreover, the new challenges posed by the implementation of the registry unification and the national cadastre required a new focus on the long-term viability of the registry-cadastre system.

Alternative 2: An access to land and housing project. In order to fully address the causes of informality, a land and housing access project might be a suitable option. Nevertheless, such a project was not considered feasible given that GoP was testing two new programs for housing access with the support of other multilaterals (*MIVIVIENDA* and *Techo Propio*). Therefore, it seemed more appropriate to continue the strategy of the UPRP in selected remnant areas and complement it with a strong policy component, while the monitoring and evaluation activities provide data on formality/informality patterns and help to find complementarities with the ongoing land and housing initiatives.

Proposed Choice. A SIL with a comprehensive approach was deemed the most appropriate tool because it would: (a) address property rights issues for various types of land (recently formalized and traditional areas); (b) reach the urban poor in the Participating Municipalities beyond the human settlements tackled under the UPRP; and (c) allow flexibility for potential adjustments along the road, while broader policies are formulated and implemented. A single policy approach to provide land tenure security and fully address property rights issues in urban and rural areas will be developed under Component 1.

The Project will address broad national policy issues while gradually advancing formalization work on the ground. Geographical distribution will be balanced so as to focus activities on economically dynamic regions (around the Peruvian coastline) while also serving disadvantaged populations in the Sierra. A demand-based, case-by-case approach to titling was considered but rejected; an area-based systematic surveying approach is considered more appropriate since it is less costly, building on existing COFOPRI expertise, and including previously unresolved areas.

C. 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 were 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)¹¹ and the preparation of a background policy paper (June 2004).¹² For the pre-feasibility and feasibility studies, two national surveys of informal possessions and municipalities were conducted (February and March 2005).¹³

¹¹ 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.

¹² Terradigm, "Strategy Paper on Increasing the Security of Property Rights in the Republic of Peru", June, 2004.

¹³ APOYO consultoría, "Estudio de Pre-factibilidad para el Proyecto de Consolidación de los Derechos de Propiedad Inmueble", Final Report, November 2005.

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. The Advisory Committee will include experts in pro-poor policies, urban development, and access to land and housing issues. The Terms of Reference (TORs), curriculum vitae (CVs) will be acceptable to the Bank, and the selection of the Advisory Committee will follow transparent and competitive procedures satisfactory to the Bank; and (ii) at the municipal level, the Participation Agreements will establish specific participatory mechanisms to promote stakeholder involvement in periodic consultation, information dissemination.

Participatory techniques involving stakeholders will be employed in the design of comprehensive policies under Component 1 and in the implementation of the formalization/cadastre/registry 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 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 (see Annex 6)

a. Implementation Period. The Loan is expected to become effective by June 2006 and the Project will be implemented over a five year period (through June 30, 2011).

b. Implementing Agency. This Project will be carried out by COFOPRI under a Subsidiary Agreement with MEF. Components 1 and 4 will be the sole responsibility of COFOPRI, while responsibility for Component 2 will be shared with Participating Municipalities under Participation Agreements, and the responsibility for Component 3 will be shared with SUNARP and IGN under Cooperation Agreements. 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 substance of the implementation arrangements established under the UPRP should be maintained. Cooperation Agreements will be entered into between COFOPRI, SUNARP and IGN 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. These agreements will specify the role and responsibilities of COFOPRI and each municipality (according to their different levels of institutional capacity) and the resources each will contribute to the common endeavor, including the periodic maintenance of the registry-cadastre system, and the strengthening of the municipality technical capacity.

Under the Loan Agreement, a Project Steering Committee with representatives from MEF, MINJUS, COFOPRI, IGN, SUNARP, MEF and civil society will be responsible for overall Project supervision including: (a) a approval of each Annual Operating Plan and any modification thereof; (b) review of Project implementation audits and reports; and (c) responsibility for the preparation of the short list for the selection of key staff for PCU under competitive and transparent procedures. The Bank will review

the qualifications and experience of the individuals in the short list and the procedures followed for their selection. A Project Management Committee will be responsible for supervision of the PCU and overall management of the Project, including representatives of COFOPRI, SUNARP and IGN. An Advisory Committee, comprising representatives of the private sector, civil society, and academic institutions, will provide regular feedback on the performance indicators. Under the Participation Agreements, a local task force comprising representatives of COFOPRI and Participating Municipalities will have field-level implementation responsibilities for formalization, and the establishment and operation of real property cadastres.

3. Monitoring and evaluation of outcomes/results

The PCU will carry out monitoring and evaluation, and report to the Project Management Committee. Periodically, it will also meet with the Advisory Committee to receive feedback on outcome indicators. The Advisory Committee will include participation of CSOs. A combination of *ex ante* and *ex post* monitoring will be used as provided by the Loan Agreement. Relevant instruments will include annual operating plans, progress reports for achieving and monitoring results indicators (see Annex 3), an independent impact evaluation and user surveys. Monitoring and evaluation results so vetted will feed back into COFOPRI-SUNARP decision-making to improve performance, and will serve as the basis for discussions of the Project Management Committee.

Building on the systems developed under the UPRP, PCU will have a small monitoring and evaluation team to collect and analyze day-to-day Project data, as well as prepare periodic reports on intermediate results and outcomes. The primary sources of Project data will be: (i) reports from COFOPRI/SUNARP's technical teams, including data on the status of formalization and cadastre services; (ii) semi-annual progress reports and annual financial statements of COFOPRI/SUNARP; and (iii) specially commissioned studies and surveys (e.g., follow-up of panel data surveys of 2000 and 2004, user satisfaction survey, real property market assessments, poverty reduction impact evaluations). Real property-related information will be obtained through SUNARP and COFOPRI systems and combined with data of municipal cadastres. Periodic reporting by PCU will be accessible, mostly online, to Participating Municipalities, CSOs and the general public. Specifically, the monitoring and evaluation system will cover the indicators in Annex 3.

4. 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 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. 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 model that enhances the coordination and technology transfer between COFOPRI and Provincial/District Municipalities; (b) the strengthening of SUNARP through efficiency gains 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/cadastral system, and increased taxpayer compliance at the municipal level. Institutional sustainability will be achieved through a focus on enhanced coordination, through the Project Steering, 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; and (b) communications and social education under subcomponent 4.1 to reduce resistance to change.

5. Critical risks and possible controversial aspects

Box No. 3 – Squatting and moral hazard

Major demographic changes and lack of affordable housing were the main causes underlying the growth of informal settlements in Peru. In Metropolitan Lima, for instance, informal settlements increased from 4% of new housing constructed in 1940 to almost 70% in 1985. Most of these informal settlements were established through squatting (either violent or gradual) of private or public land. Violent squatting was generally planned by specialized individuals or groups; gradual squatting occurred in an isolated and sporadic manner around existent urban cores, major business constructions or development projects, or in vacant lands.

However, after 1995 the number of squatters has diminished substantially. In the last ten years only two instances of massive invasions have been recorded in Metropolitan Lima, involving about 20,000 people. This decrease can be partly explained by the drastic reduction in the population growth rate (from 4.5% a year in 1970 to less than 2% in 2004) and by the vertical growth of the informal settlements. Not more than 12,500 micro-invasions resulting from family enlargement have been detected during the same period.

In this context, the risk of the proposed project generating incentives for further invasions was carefully considered during appraisal. Any land titling initiative may create “moral hazard” issues, in particular in Peru where the deadline for titling of informal possessions has been changed several times in the last forty years, the latest in 2001. To minimize this risk, the Loan Agreement for UPRP provided that such project would not formalize any squatter past March 1996. This provision precluded any UPRP financing for invasions between 1996 and 2001.

For the proposed project a similar safeguard will be included but in order to better address the main causes of informal settlements: (i) Component 1 will work in the development of a legal and policy framework conducive to access to land and housing markets by the Peruvian poor; (ii) Component 2 may support formalization of building structures in order to facilitate vertical growth in peri-urban areas; and (iii) Component 3 will finance outreach for the promotion of property rights respect through massive communications campaigns on the rights and responsibilities of owners; the campaign will aim at generating favorable attitudes and behaviors towards private property.

To mitigate the risks detailed below, Project design has been tailored to respond closely to GoP's specific requests for support and to take advantage of a positive momentum for further property rights reforms. First, there is a growing demand for new ways to generate revenue in the public sector, particularly at the municipal level. Second, the Presidency of the Council of Ministers (PCM), as well as MEF, and MINJUS are committed to support the proposed reforms. The Project has been reviewed by the Investment Project Office of PCM and the Investment Office of MEF, and MINJUS has confirmed its leadership of this initiative by participating in several preparation missions. The commitment of the municipal governments is confirmed by the signature of 101 Participation Agreements between COFOPRI and Provincial Municipalities as of November 30, 2005.

Table 5. Risk Management

Risk	Risk Rating	Risk Minimization Measure
Delays in the adoption of the legal and regulatory instruments developed under Component 1.	Substantial	Component 1 supports socially inclusive processes for the development of the legal and regulatory framework that should generate a solid constituency for reform and mechanisms for consensus-building among institutions belonging to different levels of Government; consultation with the economic teams of the main presidential candidates have also shown support for these initiatives. This component will begin with informal consultations among key stakeholders to generate consensus.
<u>Corruption/politicization</u> in the selection of titling beneficiaries under Component 3.	Substantial	Project formalization procedures are transparent and inclusive. They enable the monitoring of beneficiary selection by multiple stakeholders at the local level. As in the case of the UPRP, standard safeguards against politicization will be included (prohibition of public delivery of titles, social control mechanisms). This Project includes a monitoring and evaluation system to ensure information transparency and institutional accountability. Component 1 will seek to find affordable housing options to reduce the demand for land invasions.
<u>Moral hazard</u> , i.e. the generation of perverse incentives for further invasions in the expectation of such invasions being formalized.	Substantial	Deadline imposed for any COFOPRI formalization activity under current legislation (only for informal possessions existing by December 31, 2001) and property respect activities included in component 4. Participation Agreements with Municipalities will determine specific areas that are eligible for formalization.
<u>Insufficient access to credit</u> to enhance the livelihood of the beneficiaries under Component 4.	Substantial	The communications and social education, and market-relevant information dissemination activities of Component 4 are designed to mitigate this risk. Financial institutions will be contacted to meet project beneficiaries.
<u>Uncertain progress</u> of the decentralization process.	Moderate	Other Bank-supported initiatives (DCDPLs, Decentralization TALs) allow close monitoring/evaluation of the overall decentralization process.
<u>Vested interests</u> resist the reforms (including GoP agencies at the national and local levels). Limited inter-institutional coordination, demand-supply mismatch, and delayed approval of key reforms.	Moderate	Strong GoP support for the reforms and widespread ownership among key stakeholders under Component 1. To detect potential risk of capture by interest groups, the monitoring and evaluation system will follow up institutional accountability indicators with feedback from an Advisory Committee including representatives of institutional stakeholders and CSOs that will provide overall guidance and support.
<u>SUNARP/COFOPRI</u> apolitical, technical status impaired.	Moderate	Comprehensive real property rights policies developed through broad consensus-building in coordination with other national and local agencies under Component 1 reduce the risk of capture by interest groups, as well as effective participation and consultation mechanisms under Component 5.
<u>Weakened quality control</u> of titling procedures by COFOPRI and registration procedures by SUNARP-RP.	Low	Cutting-edge technology, continuous capacity building and strong external oversight developed under Components 2 and 4.
SUNARP's financial sustainability threatened.	Moderate	SUNARP's arrangements for managerial autonomy and accountability, and full cost-recovery policies will be supported under Component 3.
Titling in urban and peri-urban areas encounters <u>more difficulties than expected</u> .	Moderate	Capacity-building of municipal authorities and specialized task forces supported by COFOPRI under Component 3.
Overall Risk Rating	Substantial	
Risk Rating – H (High Risk), S (Substantial Risk), M (Moderate Risk), N (Negligible or Low Risk)		

A Project that provides titles to the poor has a high political profile. Granting property rights may be used as political currency or may generate a temporal hazard environment as described above. Specific rules were successfully tested under the UPRP to avoid this (prohibition of public delivery of titles, social control mechanisms, and formalization time bar). The Project will continue using these devices as well as the mechanisms for property rights recognition based on technical criteria. The Project will also support legal and regulatory changes to ensure reduced transaction costs and will focus on cost-effective registry-cadastre technology. This is a substantial risk – high reward Project that goes beyond the results and impacts of the UPRP and would advance a more coordinated process with relevant institutions to ensure the consolidation of real property rights institutions and systems.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

Economic and financial analyses have indicated that the Project is a sound investment for Peru when compared with alternatives. The Net Present Value (NPV) is estimated to be around US\$ 72.6 million, and the Internal Rate of Return around 20% (see Annex 9).

a. *Economic Analysis.* The base-line provided by the UPRP allowed determining total discounted benefits and costs. Benefits were estimated on the basis of incremental property value due to formalization (setting aside the impact of other variables like construction and location features, alternative uses of property, family socio-economic characteristics, etc.).¹⁴ Calculations were based on coverage projections under the Project and conservative assumptions in terms of incremental benefit flows. A sensitivity analysis was conducted and showed that even with a benefits reduction of up to 75% Project returns were still significant.

b. *Financial Analysis.* A financial analysis showed that the costs of the registry-cadastre component would be compensated by increased SUNARP and District Municipality revenues for registration fees and municipal property tax. A preferential registration tariff for recently formalized properties was developed under the UPRP to reduce the risk of reversion into informality. Higher property tax revenues are also expected at the level of Municipalities as a result of the establishment and operation of real property cadastres.¹⁵

Substantial financial benefits are expected as a result of the Project. The Project will have a positive fiscal impact because under the registry services provision component SUNARP will collect user fees, based on standard tariffs. These user fees should increase total SUNARP revenues from the registration of subsequent property transactions by approximately US\$2 million in NPV terms.

¹⁴ Increased property value due to formalization is a summary indicator of the capitalized value of three major types of benefits associated with formalization: improved investment incentives, marketability, and ability to use the property as collateral for loans. Estimating the magnitudes of these expected increases was a complex problem for a national program involving a heterogeneous set of properties. A wide range of factors influences property values — location, access to public services, size, value of construction, alternative use of the property — each of which interacts with tenure status. Controlling for these factors, the difference in value between similar formalized and informal properties was considered a good indicator of the economic benefit of formalization (see Annex 9, pg. 40-41).

¹⁵ Improvements in municipal tax administration are being supported under the Decentralization and Competitiveness Development Policy Loans (DCDPLs) that include triggers related to the full-fledged implementation of SIAF-GL.

2. Technical

The technical analysis is based on prior in-depth analytical work conducted under the UPRP (see Annex 18) and reflects best international practice, including risk mitigation strategies. The experience of the UPRP has shown that there are two major impediments to security of property rights in Peru: (a) property rights information is not completely reliable because registry information is not linked to cadastral information; and (b) although COFOPRI and SUNARP have conducted successful modernization initiatives, Municipalities need to catch up. Scarcity of trained staff and appropriate technology as well as cumbersome processes limit the Municipalities ability to title or to establish and operate a cadastre. The Project thus faces two major technical challenges: (a) developing a single national formalization strategy that provides the necessary technical assistance and technology transfer to Provincial and District Municipalities; and (b) implementing a large scale registry-cadastre modernization initiative that allows the entire country to move from the traditional registry system to a modern geo-referenced system.

Project design incorporates strategies to address these technical challenges: (a) streamlined and participatory formalization processes based on UPRP experience that comprise: (i) systematic parcel-based field surveys, including comparison of information on every parcel surveyed in the field with available registry and cadastre data; (ii) parcels' formalization that include rectification of previous titles, conflict resolution through non-judicial mechanisms, and public oversight; and (iii) institutional strengthening and training of Provincial and District Municipalities to ensure quality and sustainability; and (b) modern ICT infrastructure, including innovative systems that provide accessible and efficient registry services.

These strategies have specific advantages for the Project: (a) reliance on objective decision making on formalization/cadastre based on systematic comparison of field data and documentary data; and (b) effective separation of the field survey/title search steps from titling/registration steps to prevent bottlenecks generated by unresolved issues. The UPRP developed detailed operational manuals and effective quality control mechanisms that will be adapted to Project needs. Formalization methodology will continue to incorporate key social dimensions such as gender equality and social inclusion, and a communications strategy.

Given the complexity of the required geodesic network for the registry services provision component, the Project will finance a strategic ICT master plan that comprises the required hardware and software. The master plan will include cutting-edge technology to provide registry/cadastre services through the web based on international standards. Resources will be allocated to train COFOPRI/SUNARP, and the Participating Municipalities staff on the ICT platform. Partnerships will be established with the Notaries and Lawyers Associations, and local universities and think tanks to assist in the effective utilization of ICT. The Bank will carry out periodic reviews to monitor ICT efficiency, the effectiveness of the formalization/cadastre processes, and the progress of the institutional strengthening.

3. Fiduciary

a. Procurement issues:

PCU will follow standard Bank procedures for Project procurement. A five year Procurement Plan has been reviewed and approved by the Bank. Specific procedures for procurement have been incorporated into the legal documents and the Operational Manual. Procurement would include consultant services, training and goods (See Annex 8 for details).

b. Financial management issues:

During Project appraisal the Bank confirmed that PCU has adopted appropriate planning, budgeting, accounting and reporting systems. An action plan to upgrade financial management systems was approved and should be finalized before effectiveness (See Annex 7 for details).

4. Social

a. Benefits and target population

Secured property rights are not only relevant for economic growth but also critical for poverty reduction because: (a) the lack of property rights excludes the poor from economic opportunities. Informal land and housing markets may have some benefits to the poor to the extent that they do not have to conform to restrictive regulations (property taxes, transfer charges) but also involves high costs that offset the benefits (tenure insecurity that requires physical presence or illegal payments); (b) titling facilitates access to credit, given that the property can be used as collateral. A significant increase in access to formal credit as a result of the UPRP has been validated by official and private sources (see Annex 9); and (c) ownership plays a key role as a social protection substitute and source of self-employment. As in the case of the UPRP, this Project will benefit areas where the population will gain greater access to property-related services and greater security of tenure. Most of the population targeted within the Project area of component 3 is poor (42.1% of the urban population, and 77.1% of the rural population are poor)

Benefits: The consolidation of an appropriate framework for property rights in Peru will have significant economic and social benefits: (a) Economic: UPRP has shown that greater ownership security allows a more efficient property use reflected in higher property values. Higher efficiency also comes from greater investments in the property and/or the use of property in market transactions, including sales or mortgages; and (b) Social: Property formalization is a key element of an inclusion policy that allows previously excluded populations to gain access to better legal protection, public utilities, and State services. As evidenced by the UPRP, formalizing property ownership will secure women's assets vis-à-vis men's under the law (see Annex 16).

Target Population: The Project will increase the quality of life of the families living on the properties targeted by the Decentralized Formalization and Cadastre Services component. The National Poverty Map has been utilized to determine the target areas. This will cover around 2.7 million people, representing about 10% of the total population. Specific Project areas have been identified using eligibility criteria that take into account population density, poverty levels, economic potential (including expanding market for economic activities like credit and construction) and cost-benefit ratio. To apply for project support under participation agreements, Municipalities will have to commit to specific accountability and efficiency standards including: (a) establishment of adequate institutions for formalization and cadastre purposes, through transparent and competitive selection of human resources; (b) adoption of appropriate administration procedures, including checks and balances for transparency and accountability purposes; (c) selection of suitable ICT systems to provide efficient and homogeneous services; and (d) avoidance of disincentives for formalization, including tax raising or collection practices. These areas include the "Poverty Triangle" section of the country (Ayacucho, Huancavelica and Apurimac), and the Departments of Tumbes, Puno, Tacna, Piura and Cajamarca that also record significant levels of poverty.

b. Key social issues relevant to the Project objectives, and Project's social development outcomes.

A participatory social assessment for the Project was carried out during Project preparation (see Annex 16) to: (i) identify and characterize key local stakeholders (local CSOs representing the interests of

specific social groups, like women and housing associations); (ii) identify possible social risks and impacts; (iii) analyze key socio-economic factors; and (iv) identify the structure of informal relations around property rights among key local stakeholders. The assessment included in-depth interviews and focus groups in Project areas.

Security of ownership is a central concern of informal possession dwellers given the weak presence of the State in these areas. These communities usually have a considerable cohesion and self-rule. Neighborhood organizations provide some basic services, resolve disputes, and even administer property rights. In parallel to these organizations, informal possessions have also witnessed the growth of functional groups (community kitchens, mothers' clubs, parents' associations, sports clubs, etc.), normally run by women and often providing safety nets for poor people.

The UPRP affected communities in different ways. In some cases, completion of the titling process weakened the role of neighborhood organization leaders with political associations. In others, it encouraged the provision of community services. Property formalization is part of a broader modernization process, in which formerly excluded people enter into a closer relationship with national and local governments, and modern markets. Associations formed primarily for ownership access or protection, face the challenge of evolving into organizations that provide other services or mobilize resources. As part of the UPRP implementation, inter-disciplinary social assessments (including extensive consultations) were carried out on the social aspects of formalization for the beneficiary populations in the 14 targeted Departments. The studies' samples included representatives of populations living on private and public lands, and the studies' main thematic areas were socio-economic characterization of beneficiary populations, key factors determining access to property rights (including gender issues), a typology of land related conflicts, participatory mechanisms, and operational recommendations to achieve Project objectives.¹⁶

Based on the results of the social assessment, the design of this Project will incorporate a periodic socio-economic monitoring process throughout implementation, supported by participation and consultation activities that emphasize a high degree of involvement of beneficiary populations in Project implementation. Socio-economic impacts of property formalization on local communities will be closely tracked under Component 5 to adopt preventive and mitigation measures vis-à-vis possible adverse impacts. For instance, as the Project is expected to work in areas where significant population of indigenous descent is present (peri-urban areas of Cusco and Puno) translators will be needed to provide formalization services in Quechua/Aymara areas.

5. Environment

Environmental Category: C (No Assessment)

As in the case of the UPRP, the Project will not deal with environmental issues. The design of the Decentralized Formalization and Cadastre Services component has incorporated appropriate guidelines in the Operational Manual to avoid formalization in risk areas or in or near archeological sites. However, the Project is expected to generate favorable impacts from an environmental standpoint under Components 2 and 4 because it will support activities that may induce positive behavioral changes among urban dwellers while no negative impacts are envisaged (for instance, information on risk areas and cultural property issues).

¹⁶ SASE, "*Estudio sobre la Dinámica de los Asentamientos Humanos*" (Study on the dynamics of Human Settlements), July 2002; and Paredes, Ursula, et al., "Formalización de la propiedad urbana en el Perú: Cuatro Historias de Éxito" (Urban Property Formalization in Peru: Four Success Stories), COFOPRI, Lima, 2002.

6. Safeguard policies

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

This Project is a follow-up of the Urban Property Rights Project (Loan No. SCL-43840 – UPRP). Section E.6 of the Staff Appraisal Report (SAR) for the UPRP mentioned that the project did not deal with environmental issues as described and identified by Bank's policy, and explained that no involuntary resettlement would take place. Section 4 of the ICR for the UPRP explained that in the case of possible risk areas or archeological sites, COFOPRI worked with the agencies in charge (National Culture Institute [INC] and National Civil Defense Institute [INDECI]) to ascertain whether formalization could move forward. In these specific cases, the decision to clear the sites for formalization was taken by INC or INDECI, as appropriate. Experience with safeguards policies under the UPRP was therefore satisfactory; the Operational Manual proved adequate to prevent any potential environmental or resettlement impact.

As in the case of the UPRP, the proposed Project will not deal with any environmental issue. Property targeted for formalization will only be small lots in State-owned land that was invaded before December 31, 2001, in urban and peri-urban areas (Property Formalization Law - Law No. 28391- Art. 1). The Project will not include the titling of environmentally significant lands (i.e., lands for productive use or in rural areas) that are governed by separate legislation and titled under PETT.

Following the UPRP precedent, the design of the decentralized formalization component will incorporate appropriate guidelines to prevent formalization from happening in risk areas (as mandated by Art. 21 and 22 of Supreme Decree No. 009-99-MTC and Art.18, Supreme Decree No. 013-99-MTC) or in or near archeological sites (as required by Art. 2.2.2 of Law No. 28391, Art. 1 of Supreme Decree No. 017-98-PCM and Art. 3 of Supreme Decree No. 046-98-PCM). Furthermore, the law specifically excludes from formalization land that constitutes a natural habitat (Law No. 28391, Art. 2.2). The Operational Manual will include sections to screen the above excluded areas out from titling under the project at the earliest stage of Project area surveying; no major change is anticipated to the provisions of the Manual for the UPRP, that were satisfactorily applied.

However, the Project is expected to generate favorable impacts from an environmental standpoint under Components 3 and 4 because it will support activities that may induce positive behavioral changes among urban dwellers that may have positive environmental impact while no negative impacts are envisaged (for instance, provision of reliable information on risk areas and cultural property issues).

The Project will not trigger OP 4.10 as COFOPRI'S legal framework (Law No. 28391) only allows formalization of individual informal possessions on State-owned land pursuant to Article 4 of Law No. 26845; demarcation and titling ancestral indigenous lands or natural habitats is not envisaged under this Project but under the GEF-financed Indigenous Management of Protected Areas in the Peruvian Amazon Project. Furthermore, OP 4.10 does not apply because project beneficiaries have lost collective attachment to their original distinct habitats and ancestral territories and moved into urban and peri-urban

areas. However, the Operational Manual will include provisions to ensure informed consultation and participation of beneficiaries of indigenous descent in their own language during the whole formalization process. Furthermore, formalization and titling of community and indigenous lands is the mandate of PETT and falls outside the jurisdiction of COFOPRI.

The Project will not trigger OP/BP 4.12 or OPN 11.03 as no involuntary resettlement or impacts on cultural property will result from Project activities. Involuntary resettlement will not occur because the Project will only formalize State-owned land as provided by Law No. 28391 (Art. 2.1); the same law mandates that no privately held or disputed property can be formalized (Law No. 28391, Art. 10). The Project is designed to ensure that squatters remain in the lands they already occupy and mobilize that “dead capital” through market transactions (credit, sales, and mortgages). Therefore, no physical displacement will be encouraged or supported under the Project.

However, because State-owned lands in the Project area may contain culturally valuable resources (in particular around the city of Cusco) in order to prevent the titling of lands supporting these materials, the Operational Manual will provide that any historic or archeological site within the Project area be surveyed, and their administration and conservation will be placed under INC jurisdiction as provided by Law No. 28391. To ensure that Project activities do not result in unintentional titling of areas of cultural value, as in the case of the UPRP information on any such lands will be forwarded to INC, and titling will only be allowed following an official authorization by INC.

Finally, due diligence procedures for addressing social issues in the Project area will be included in the revised Operational Manual.

7. Loan Terms and Conditions

A. Covenants

(a) COFOPRI and SUNARP will enter into a Cooperation Agreement that will include the following responsibilities: maintaining records and accounts adequate to reflect the operations, resources and expenditures with respect to their respective parts of the Project; establishing the Steering Committee, the Management Committee and the Advisory Committee; and complying with the provisions of the Operational Manual, the Annual Operation Plans and the Procurement Plan.

(b) COFOPRI and IGN will enter into a Cooperation Agreement that will include the responsibility of IGN to operate and maintain the geodesic network, and the obligation of IGN to collaborate with COFOPRI in the procurement of the goods and consultants’ services for Component 3 of the Project.

(c) COFOPRI will enter into Participation Agreements with Provincial Municipalities or District Municipalities for the purposes of Component 2 of the Project stipulating the roles, responsibilities and obligations of the Municipalities and ensuring their participation in the implementation of the Project. These agreements will oblige the Municipalities to allow the participation of community-based organizations in the formalization process, and to allocate appropriate resources for Project implementation purposes on a timely basis; and will oblige COFOPRI to inform the Municipalities about Project-financed activities, provide technical assistance and capacity-building to the Municipalities for their institutional strengthening for the purposes of formalization processes, and evaluate jointly with the Municipalities the results of Project-financed activities. Both COFOPRI and the Provincial Municipalities will develop and implement Action Plans to strengthen the capacity of the Participating Municipalities to manage their formalization and cadastre programs, as well as to exchange information with other cadastre generating agencies.

(d) A Steering Committee will be responsible for general project supervision. A Management Committee will be responsible for the overall Project management. An Advisory Committee, comprising stake holder representatives, including the private sector, civil society, universities, and think tanks, will provide regular feedback on performance indicators.

(e) The Project Coordination Unit (PCU), within COFOPRI, will be responsible for day-to-day Project coordination. Key staff of the PCU will be selected through competitive and transparent procedures satisfactory to the Bank. The PCU will prepare the Annual Operation Plan for each year, specifying the activities to be financed, the implementation schedule, and the required financial and human resources.

(f) COFOPRI will issue an Operational Manual, which will contain: the Project's institutional setup; disbursement, accounting, auditing and reporting procedures; procurement responsibilities, processes and internal controls; and monitoring and evaluation plans for the Project, including a list of the Participating Municipalities and the Performance Indicators.

(g) To assess overall Project economic, social and environmental impact, COFOPRI will contract an impact evaluation study with independent consultants, by December 31, 2009.

(h) Not later than November of each year of Project implementation, COFOPRI will hold a Project Annual Review with the Bank in which it will report on Project execution's progress in the achievement of its objective; performance of the Implementing Agencies; effectiveness of the Participation Agreements in terms of Municipalities involvement; experience with the rules and procedures set forth in the Operational Manual; and justification of the investment and institutional proposals for the implementation of the Project during the subsequent year.

B. Conditions of Effectiveness

- (a) Subsidiary and Cooperation Agreements signed; and
- (b) Operational Manual approved by the Bank.

Annex 1: Country and Sector Background

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

1.- Country Background: Ongoing Decentralization Process

a. Overall framework

Recent actions to develop a fiscally sound decentralization strategy include a legal framework approved between 2002 and 2003 that incorporates principles of fiscal and debt sustainability at the sub-national level: (i) the Framework Law of Decentralization endorses the principle of fiscal neutrality; (ii) the Organic Law of Decentralization includes the principles of transparency, accountability and responsibility in terms of borrowing and establishes fiscal rules for regional and local governments; (iii) the Law of Regional Governments details exclusive and shared responsibilities, and allows the Central Government's oversight over the Regional Government's finances.

GoP decentralization agenda for the next years seeks to ensure the fiscal and institutional sustainability of decentralization and enhance the accountability and delivery capacity of sub-national governments by taking simultaneous actions at national, regional and municipal levels. At the national level, GoP will further strengthen its capacity in the areas of investment planning, monitoring and evaluation of sub-national expenditures, and common budgeting and accounting standards for integrated financial management. At the regional level, GoP will focus on completing the legal and regulatory framework while gradually advancing transfer of programmatic responsibilities to regional governments. At the municipal level, GoP will take curative and preventive actions regarding current debt stock of over-indebted Municipalities. The SIAF-GL module will be a critical element to ensure proper financial management at the municipal level; it includes a cadastre sub-module that will allow Municipal Governments to make a proper use of cadastral information for tax purposes (including assessment and collection).

b. Decentralized Formalization and Cadastre Services

Decentralization issues were tackled under the UPRP. After 2000 formalization activities were carried out through Provincial Formalization Commissions. Although that system facilitated coordination and prioritized interventions, it was not successful in transferring know-how to Provincial Municipalities because of their limited institutional capacity (municipalities were usually not prepared to take over additional responsibilities and lacked the technical and human resources to that end). Formalization requires a minimal capacity to ensure quality services under consistent national standards. The formalization experience of Municipalities prior to the establishment of COFOPRI was not positive because of their limited institutional capacity.

Provincial Municipalities will gradually move to the "driver's seat" of formalization processes in Peru not only because the Municipalities Organic Law and the Formalization Law entrust them with formalization responsibilities and allows them to receive technical assistance from COFOPRI, but also because: (i) formalization activities generate expertise in areas like the use of mapping tools and urban land information systems which are at the core of the urban planning and development functions; and (ii) urban planning and development responsibilities like land conditioning, zoning, and building control could be substantially enhanced with the technology transferred under the Project. District Municipalities will also have a critical role because they will: (A) generate information to update property cadastre records; (B) support housing alternatives for the poor and promote housing markets; and (C) utilize cadastral information to increase tax revenues and contribute to the cost of the maintenance of cadastral information.

Under the Project, decentralization of formalization will proceed via Participation Agreements between COFOPRI and interested Provincial and District Municipalities. Under the Participation Agreements, Municipalities will provide (in exchange for formalization and cadastre support) local offices and staff, vehicles, and room and board for COFOPRI staff temporarily assigned to work with them for local capacity building. The tax dimension of the cadastre will be closely coordinated with the SIAF-GL initiative to develop the untapped tax potential of recently formalized areas and traditional areas.

2. Sector Background: Real Property Rights Consolidation

a. Coordinated Policy-Making

The main cause of real property informality is the lack of access to affordable land and housing by the Peruvian poor. Weak policies have contributed to this problem: (a) lack of transparent mechanisms for allocating State-owned land; (b) inefficient functioning of real estate markets in poor urban areas; (c) over-regulated and defective urban development processes. A consistent property rights policy will require the joint efforts of several institutions at the central and subnational levels of government.

The generation of such policies clearly exceeds the role of SUNARP and COFOPRI; however, the two institutions are ideally positioned to create spaces for policy discussion and to coordinate initiatives that can be articulated with lower levels of government. An essential element to devise the right policies will be the availability of an information system capable of providing not only topographic information, but also socio-economic information about the areas where such policies will apply. The expertise developed by SUNARP-COFOPRI under the UPRP will support the development of modern policies at a national level and apply them in municipal jurisdictions.

b. Registry Unification

RP establishment meant immediate benefits for users, especially the poorest, as it eliminated duplication of property registries and allowed them access to a single registry thus eliminating any chance of discrimination against properties recorded in RPU. A second benefit was the possibility of increasing the number of registry services access points for the low-income segment of the population. While RPI and SEPR served the public through 58 and 25 registry offices, respectively, RPU only provided services through 20 offices. After the merger, SUNARP has complemented the registries network and extended coverage for the low-income segment by widening the number of registry access points from 20 to 83 offices. With the support of the UPRP, SUNARP advanced RP establishment in the following areas: (a) interface development between the different software platforms of the property registries merged; and (b) drafting regulations for proper operation of the merged registries, behind the same front office. The procedures of the back offices will remain separate until pilot projects have been finalized.

One of the main objectives of the merger of the old property registries was to retain their strengths while overcoming their weaknesses. As evidenced in Doing Business in 2005¹⁷ the Peruvian property registry system ranks among the top performers in LCR (See Figures No.1, 2 and 3) but there is still room for improvement.

¹⁷ Monitoring, Analysis and Policy Unit, Investment Climate Department, World Bank Group, "Doing Business in 2006: Creating Jobs. Latin America/Caribbean Region, Regional Profile", 2006, pp. 15-17

Figure No.1 Time to Register Property in Latin America

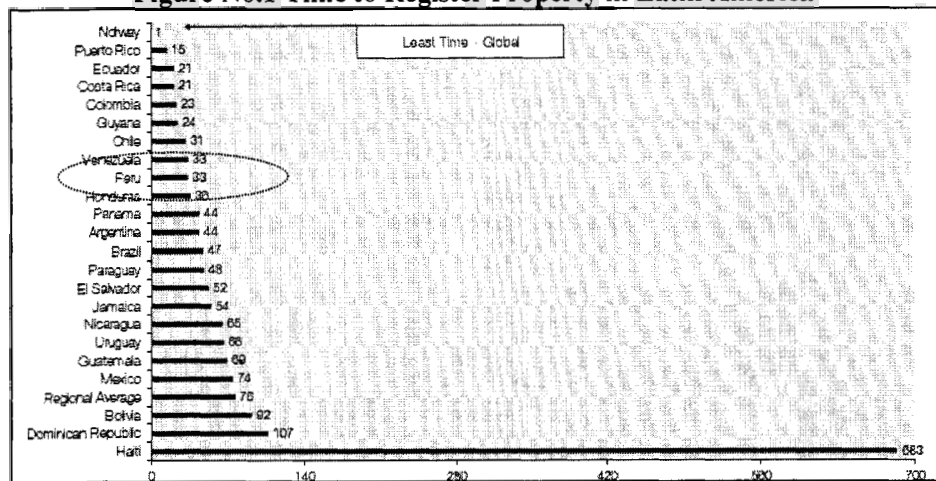


Figure No.2 Cost to Register Property in Latin America

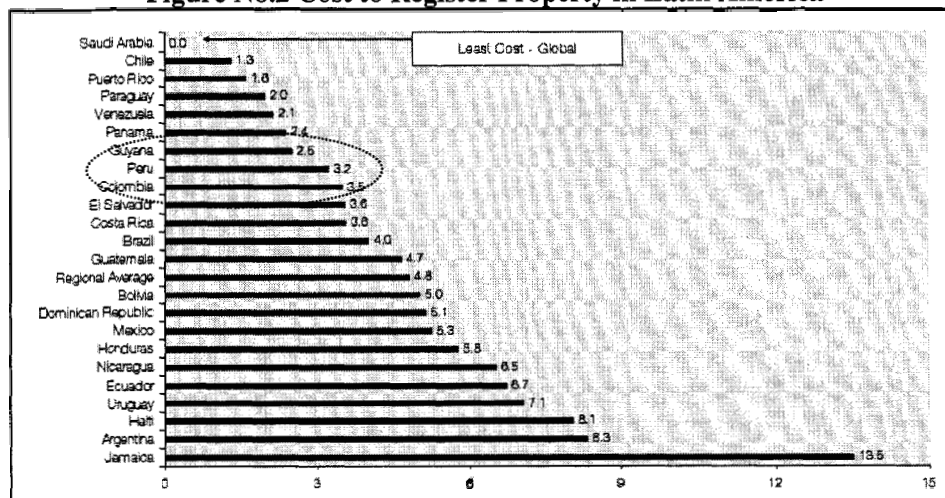
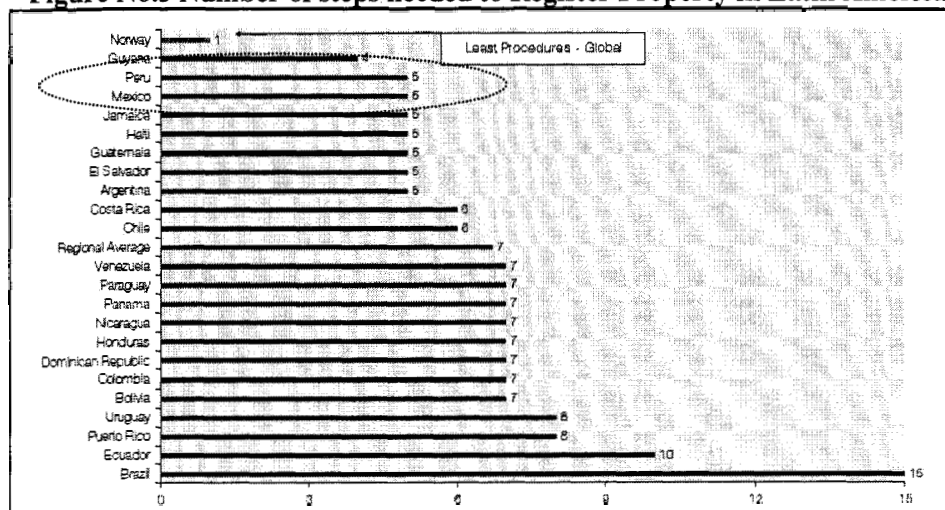


Figure No.3 Number of steps needed to Register Property in Latin America



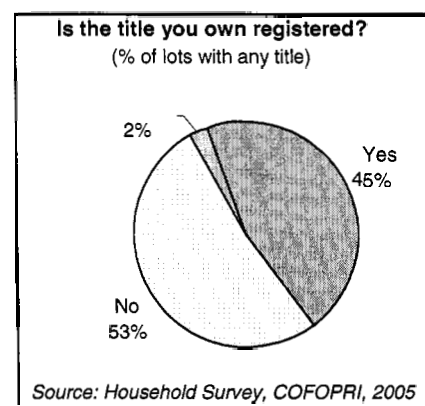
Source: Doing Business Database

Although there has been significant progress at the normative level (in the recently issued Property Registry Regulations several of such strengths are reflected), effective implementation will be challenging, in particular the optimization of registration services and the transformation of RP into a proactive registry accessible to the poor. The Regulations have also allowed SUNARP to operate 3 mobile units, designed to receive titles for registration in remote areas. These mobile units will expand the coverage of registration services to the neediest sectors by reducing costs for these users.

Figure No.4

Registry by title type (% of those who have a title)				
Title type	Registered	Did not register	Does not know	Type/Title
Municipality Title	65.28%	32.05%	2.67%	30%
Sale contract	38.45%	59.26%	2.29%	50%
Allocation Certificate	31.48%	62.96%	5.56%	5%
Other	34.66%	63.64%	1.70%	15%
Registry/Total of Titles	45%	52%	2%	100%

Figure No. 5



RP will take into account the needs of recently formalized owners to avoid the traditional obstacles hindering access to the formal system and, consequently, favoring reversal into informality. Sustainable property rights reform in Peru depends on the continuous use of RP, but high transaction costs, a lack of registry culture and the prevalence of informal agreements based on family and social networks, compete with the legal security offered by State Institutions. RPU served the needs of low-income populations through the establishment of a simplified registry system which resulted in lower costs for the final users, including subsidized registration fees and substitution of public deeds for registration forms. RPU also introduced technical features that did not exist in the traditional property registries, like a cadastral base which allows the proper geographical identification of properties thus improving the accuracy of registry information.

Figure No. 6

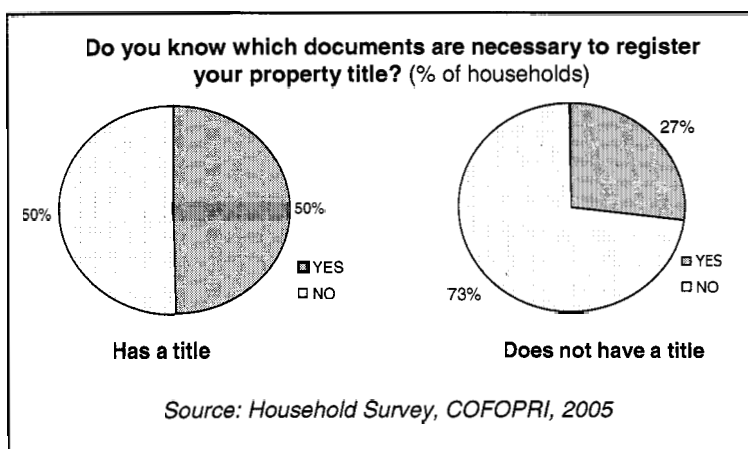
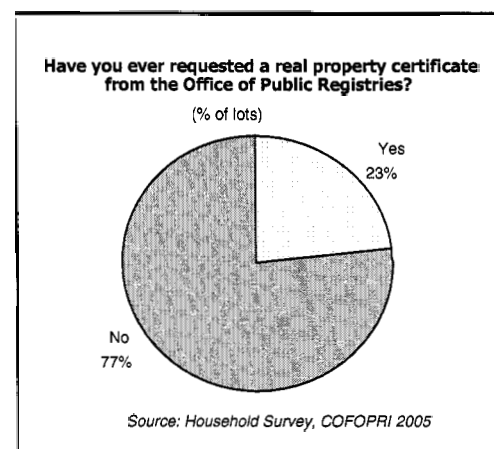


Figure No. 7



Registries unification benefits cannot be fully realized while the applications received from the old registries remain incompatible, as the legal and physical information databases currently are. The consolidation of RP will be a complex process involving: (i) improved physical accessibility for poor users; (ii) optimization of information systems; (iii) optimization of RP databases in order to achieve a common quality standard; (iv) reengineering of registration processes (particularly in the area of registration requirements), administrative processes, and proactive mechanisms, in order to ensure access to all citizens at a reasonable cost, especially to poor users; (v) mechanisms for the precise identification of plots through a cadastral base developed as a part of the national geo-referenced infrastructure information; and (vi) economic sustainability based on fee collection for registration services (basically registration and publicity) that nevertheless permit low-income users to register subsequent transactions. (See figure No.8)

Figure No.8 – Registration Fees in Peru

REGISTRATION FEES

SUNARP'S FEES				PROPERTY VALUE (in Soles)													
				5 000	10 000	15 000	20 000	25 000	30 000	35 000							
PRIOR FEES	RP U	Fixed Fee	36	36.0	36.0	36.0	36.0	36.0	36.0	36.0							
	RPI	Fixed Fee	7	7.0	22.0	7.0	37.0	7.0	52.0	7.0	67.0	7.0	82.0	7.0	97.0	7.0	112.0
		Variable Fee 3/ 1000 v.a	3/	15.0		30.0		45.0		60.0		75.0		90.0		105.0	
CURRENT FEES	RPI	Fixed Fee	25	25.0	18.5	15.0	45.0	25.0	47.5	38.0	55.0	25.0	82.5	25.0	90.0	25.0	77.5
		Variable Fee 1.5/ 1000 v.a	1.5/	7.5		15.0		22.5		30.0		37.0		45.0		52.5	

Source: SUNARP

To enhance low-cost access, the registry model of SUNARP-RP will be complemented by IRCN that, in real time, will allow any user of the system to access records about properties located in any part of the country at a nominal cost through appropriate web-based tools. This system would supersede the traditional territorial jurisdiction of RPI and would ensure low-cost access to registry services in the whole country, particularly in poor areas. Document reception offices will also be established by SUNARP in all provincial Municipalities (189). SUNARP-RP process re-engineering will comprise strategies to enhance service accessibility like agreements with public or private agencies to expand services coverage, including the notaries and lawyers associations. The re-establishment of simplified standard forms with special rates for poor areas should facilitate the recording of transactions in recently formalized areas; and overall institutional strengthening of SUNARP management capacities will help to implement procedural simplification and proactive mechanisms.

c. National Registry Cadastre System

The most serious issue of the Peruvian registry system remains the low reliability of the physical information on file, due to lack or low quality of registered maps (maps with no geo-referencing, vague descriptions and generic texts in public deeds) that do not constitute cadastral support for the titles recorded in RPI. Although in each of the 13 Registration Areas cadastre units have been created, the

progress in the analysis and integration of cadastral information has been slow. The lack of a cadastral base (that can support the registry information process) and an effective plot identification system in RPI and SEPR (which do not contain digitized and geographic information in historical files) generated overlapping rights and entry duplication.

Figure No. 9

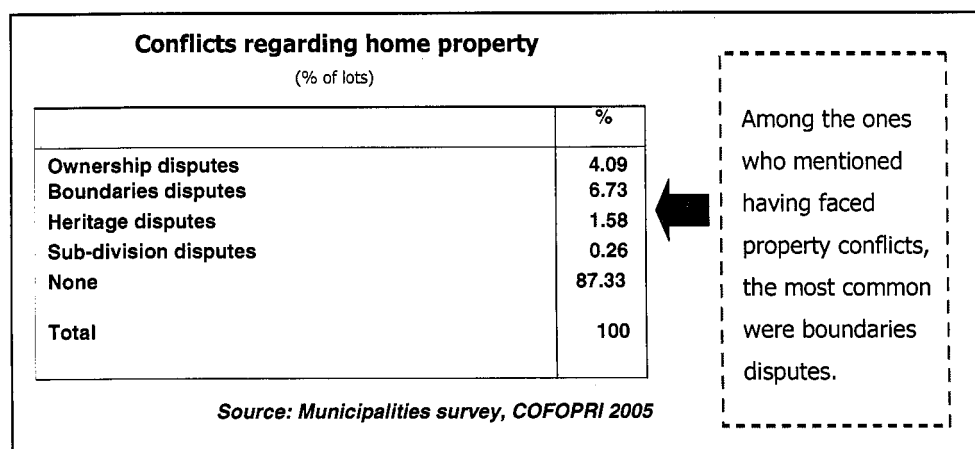


Figure No. 10

**Overlapping cases during COFOPRI's formalization work
(Total 1996-2004)**

Department	Office	Overlapping cases	Annual average	%
Ancash	Huaraz	1,527	170	1.0
Arequipa	Arequipa	30,392	3,377	20.5
Ayacucho	Ayacucho	750	83	0.5
Huancavelica	Ayacucho	200	22	0.1
Ica	Ica	4,730	526	3.2
Piura	Piura	48,074	5,342	32.5
Puno	Arequipa	1,500	167	1.0
Tacna	Arequipa	8	1	0.0
Ucayali	Pucallpa	10,570	1,174	7.1
Loreto	Chiclayo	450	50	0.3
Lambayeque	Chiclayo	25,623	2,847	17.3
Lima	UFI	24,238	2,693	16.4
Total 1996-2004		148,062	16,451	100

Source: COFOPRI

This matter was solved under the UPRP by closing and transferring entries from RPI-SEPR to RPU. Around 1.8 million records of formalized properties have been based on reliable cadastral surveys conducted by COFOPRI and maps registered in RPU. Effective registry unification requires the integration of these records through modern information technologies, under a system in which properties with or without cadastral support will coexist in the mid-term.

For instance, under the new System, notaries will be linked with SUNARP-RP in such a way that every property-related transaction in which a notary is involved should be immediately transmitted to

SUNARP-RP with a digital signature, through a permanent ICT link. In areas where such ICT link is not available, notaries may forward transaction information to SUNARP-RP through other means. The regulations will define those areas, and the appropriate mechanisms. Making notaries allies of the National Integrated Cadastre System in order to promote legal security is a promising approach. However, it raises concerns in connection with the cost/benefit of the ICT link and the digital signature. That system could start operating in Lima, and major cities like Arequipa and Trujillo, in the near future, but its implementation in other areas will take additional time and depend on the technical standards adopted by the regulations which may consider alternative solutions. The cost of an ICT link, the single cadastre code, and the platform required for a digital signature will be transferred to users. To avoid the dichotomy legal security vs. accessibility of services that could have a negative influence on the sustainability of formalization, the Project will review the proposed regulations and recommend reasonable strategies for a low-cost mechanism.

In order to implement the System, SUNARP will develop, with Project assistance, geo-referenced cadastral information maintenance applications integrated at a national level through: (i) integration of the databases and digitized cartographic sources (RPI, RPU, SEPR and Municipalities [if any]); (ii) development of appropriate strategies for geographic areas where cartography is not available; (iii) generation of plot indexes for RP data which integrates and strengthens the RPI, RPU, and SEPR searches; (iv) validation of data through the expansion and maintenance of the National Geodetic Network; and (v) development of a procurement plan for ICT equipment and software required for cadastral surveys, and interconnection of cadastral data belonging to member institutions of the Cadastre System. Appropriate technology packages will be developed under the principles of adaptability to various levels of institutional capacity and upgradeability.

The Project will generate unified cadastral norms to construct a single grid that allows seamless attachment of data to a common, shared database, through: (i) development of a national standard cadastral numbering system; (ii) preparation and implementation of a cost-recovery strategy for maintenance of a geo-referenced based cadastre (work in traditional areas will be conducted on demand basis, against full cost-recovery fees to be charged to owners); (iii) design of a training program for SUNARP, COFOPRI and Municipal staff on cadastre issues; and (iv) dissemination of the new rules and procedures for cadastral surveying.

d. Unfinished Formalization

Unsatisfied Demand. The UPRP focused on urban marginal land and achieved an impressive target of almost 1.135 million titles issued. However, demand for further formalization services is still high; approximately 1.4 million properties could be formalized. To serve that demand the mass-scale formalization model of the UPRP has to be adapted. Therefore, formalization under the Project will be governed by the following criteria: (i) impact rather than quantity will determine the design of formalization strategies; (ii) cost-effectiveness of the overall formalization process will be maintained; and (iii) process re-engineering will: (A) improve impact, strengthen community participation, and ensure cost-benefit; (B) concentrate on the completion of existing areas rather than starting new areas and leaving existing areas unfinished; and (C) expand into new areas selected on the basis of selected socio-economic indicators (Cusco, Puno, Cajamarca and Madre de Dios have been already identified).

Figure No. 11

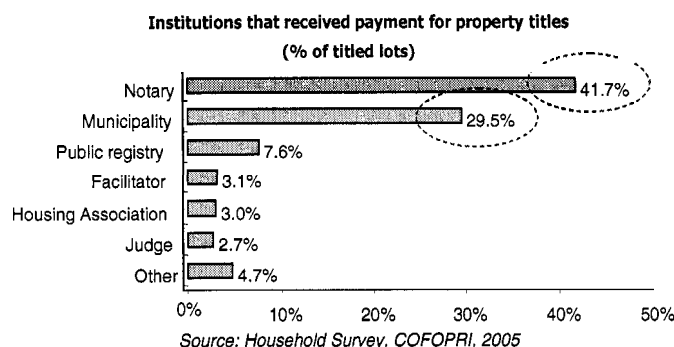


Figure No. 12

Total time for the Property Title to be issued
(% of homes)

	%
Less than 1 month	44.43
From 1 to 3 months	22.82
From 3 to 6 months	9.29
From 6 to 12 months	6.16
From 12 months to 2 years	8.37
From 2 to 3 years	4.23
From 3 to 5 years	2.39
More than 5 years	2.30

Source: Household Survey, COFOPRI 2005

Under the UPRP, COFOPRI gathered a significant amount of information about areas that were not formalized. During Project preparation this information was reviewed and updated to ensure that any further assistance of COFOPRI to Participating Municipalities is justified in cost-benefit terms.¹⁸ During Project design, a small pilot on the feasibility of formalization processes through itinerant brigades, in collaboration with Provincial and District Municipalities was carried out. The traditional model of the UPRP will be enhanced with the participation of the private sector and civil society and the definition of a specific formalization plan for Participating Municipalities that may include poor and non-poor areas, so as to generate cross-subsides for the formalization process, and subsequently for the operation and maintenance of a quality municipal cadastre. Alternative formalization models will be considered.

Figure No.13 – Decentralized Formalization Services Demand Estimate

Department	Population (2004)	Urban Lots	Urban Lots to be Formalized
Amazonas	443,025	98,450	58,049
Ancash	429,518	95,448	56,279
Apurímac	478,315	106,292	62,673
Arequipa	51,406	11,424	6,736
Ayacucho	81,612	18,136	10,693
Cajamarca	1,384,063	307,570	181,351
Callao	7,480	1,662	980
Cusco	1,179,708	262,157	154,575
Huancavelica	387,288	86,064	50,745
Huanuco	833,640	185,253	109,230
Ica	10,042	2,232	1,316
Junín	650,859	144,635	85,281
La Libertad	119,391	26,531	15,644
Lambayeque	30,753	6,834	4,029
Lima	416,500	92,556	54,573
Loreto	339,483	75,441	44,482
Madre de Dios	104,891	23,309	13,744
Moquegua	5,090	1,131	667
Pasco	154,633	34,363	20,261
Piura	608,617	135,248	79,746
Puno	1,284,163	285,370	168,261
San Martín	777,694	172,821	101,900
Tacna	1,574	350	206
Tumbes	44,210	9,824	5,793
Ucayali	33,860	7,524	4,437
Total	9,857,815	2,190,626	1,291,648

¹⁸ Equity considerations will also justify the development of strategies by municipal governments to provide alternatives for those who cannot be covered by this Project.

Figure No.14 – Cadastre Services Demand Estimate

Department	Population (2004)	Cadastral Units	Effective Demand
Intervened areas			
ANCASH	709,565	157,681	120,443
AREQUIPA	1,075,230	238,940	182,512
AYACUCHO	489,951	108,878	83,165
CAJAMARCA	148,815	33,070	25,260
CALLAO	804,394	178,754	136,540
CUSCO	58,094	12,910	9,861
HUANCAVELICA	72,700	16,156	12,340
ICA	699,514	155,448	118,737
JUNIN	623,922	138,649	105,906
LA LIBERTAD	1,431,405	271,497	207,380
LAMBAYEQUE	1,110,475	246,772	188,494
LIMA	7,595,320	1,687,849	1,289,246
LORETO	591,961	131,547	100,481
MOQUEGUA	158,667	35,259	26,932
PASCO	122,842	27,298	20,851
PIURA	1,077,355	239,412	182,873
PUNO	12,940	2,876	2,196
TACNA	308,191	68,487	52,313
TUMBES	166,879	37,084	28,326
UCAYALI	430,539	95,675	73,081
Total	17,688,759	3,884,242	2,966,939
Non-intervened areas			
AMAZONAS	443,025	98,450	78,521
ANCASH	429,518	95,448	76,127
APURIMAC	478,315	106,292	84,775
AREQUIPA	51,406	11,424	9,111
AYACUCHO	81,612	18,136	14,465
CAJAMARCA	1,384,063	307,570	245,308
CALLAO	7,480	1,662	1,326
CUSCO	1,179,708	262,157	209,088
HUANCAVELICA	387,288	86,064	68,642
HUANUCO	833,640	185,253	147,752
ICA	10,042	2,232	1,780
JUNIN	650,859	144,635	115,357
LA LIBERTAD	119,391	26,531	21,161
LAMBAYEQUE	30,753	6,834	5,451
LIMA	416,500	92,556	73,819
LORETO	339,483	75,441	60,169
MADRE DE DIOS	104,891	23,309	18,591
MOQUEGUA	5,090	1,131	902
PASCO	154,633	34,363	27,407
PIURA	608,617	135,248	107,870
PUNO	1,284,163	285,370	227,602
SAN MARTIN	777,694	172,821	137,836
TACNA	1,574	350	279
TUMBES	44,210	9,824	7,836
UCAYALI	33,860	7,524	6,001
Total	9,857,815	2,190,626	1,747,173
General Total	27,546,574	6,074,868	4,714,112

One area of significant potential is the inclusion of buildings and other constructions in registry records. Peruvian legislation requires owners to have a separate title for the building (it is not enough to have a title on the land). For access to credit purposes, financial institutions prefer as collateral a mortgage deed that specifies building features because the building value is usually higher than the land value. The limited use of the mortgage guarantee may be associated to the lack of building regularization. Law No. 27157 established procedures to obtain building regularization that are not affordable for most low-income owners.

A pilot conducted under the UPRP ¹⁹ has shown the interest among COFOPRI beneficiaries in building titling and their willingness to pay a cost-recovery fee. In addition to the positive impact on access to credit, building titling may generate incentives for urban densification through the provision of housing alternatives via the construction of additional floors that can be rented out or sold to third parties securely only if the building is previously registered. The private sector is not currently providing this service; a few companies tried to offer the service at market costs but found that it is not affordable for people around the poverty line. Consequently, GoP support for such program is justified, although part of the ground work could be contracted out to private companies. Regulatory reforms may be required for procedural simplification and the Project will require a strict cost-benefit ratio in the initial analysis of the areas where building regularization can take place.

Therefore, the feasibility of titling buildings and other constructions will be assessed under Component 1 through: (i) analysis of the existing legal framework, including an assessment of the experience under Law No. 27157; (ii) definition of the specific information to be incorporated into the registry system; (iii) selection of mechanisms to conduct field work (simplified processes, systematic or sporadic formalization, private sector service delivery, etc); (iv) cost-benefit analyses, and cost-recovery policies on the basis of a definition of public or private assets; and (v) drafting of the required legal or regulatory reforms. Prior to undertaking mass-scale building titling under Component 2, the following actions will be taken: (A) determination of cost-recovery responsibilities (municipal governments or private owners); and (B) review of effective market asset mobilization.

Another area that may deserve a tailor-made approach is the protection of cultural heritage. Under the UPRP, COFOPRI detected that due to lack of information about the legal provisions protecting cultural heritage and lack of appreciation of the value of archeological monuments, a number of housing associations and human settlements had extended to culturally valuable areas, thereby generating conflicts with the authorities in charge of the protection of such areas. Effective protection of Peru's cultural patrimony requires the exercise of the protective powers granted to INC and SBN; with respect to archeological monuments by Law No. 28296 (General Law of the National Cultural Patrimony). Under the Project, a proactive strategy for the protection of the cultural patrimony will be generated jointly with INC and SBN, and actions will be taken so that the maps and titles corresponding to these archaeological areas are recorded in RP to ensure that they are effectively preserved. This is also expected to enhance the quality of life of the inhabitants in the surrounding areas through tourism-related activities supported by training programs for settlement inhabitants and municipal authorities.²⁰

e. Information Barriers

The granting of property titles to beneficiary population was not the only objective of the UPRP; equally important was to ensure that those titles became catalysts of a market dynamic that would improve the living conditions of beneficiaries. One of the principal benefits of a property formalization project should be a more efficient use of properties as a result of recognized rights. This more efficient use of real property should mean higher prices, increased market transactions and its use as loan collateral. The

¹⁹ Pilot data was obtained from 3 different geographic areas accounting for approximately 750 properties. The pilot sought to determine the feasibility of this activity in terms of private sector participation and cost allocation (owner, municipality).

²⁰ A review of the Bank's experience in cultural heritage and slum upgrading concluded that cultural heritage is an essential part of creating sustainable cities. For example, providing communities with the necessary knowledge on cultural property issues can trigger conservation and cultural activities, which in turn, enhances the potential for investments in tourism. See, "Cultural Heritage and Slum Upgrading: World Bank's Experience and Good Practice", presentation prepared by the Services to the Urban Poor Thematic Group and delivered at MIT, June 13, 2002.

evidence collected under the UPRP (see Annex 17) shows that this not only results in economic benefits but also generates a series of positive social dynamics, such as greater security, increased social accountability for improved public services and infrastructure, and strengthened position of women at the household and community level.

Figure No. 15

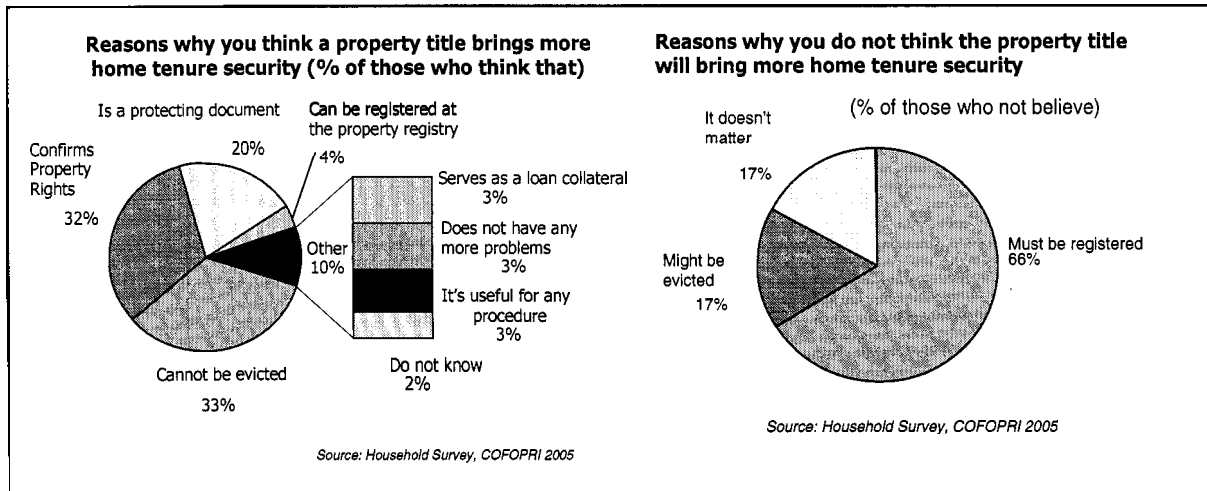


Figure No. 16

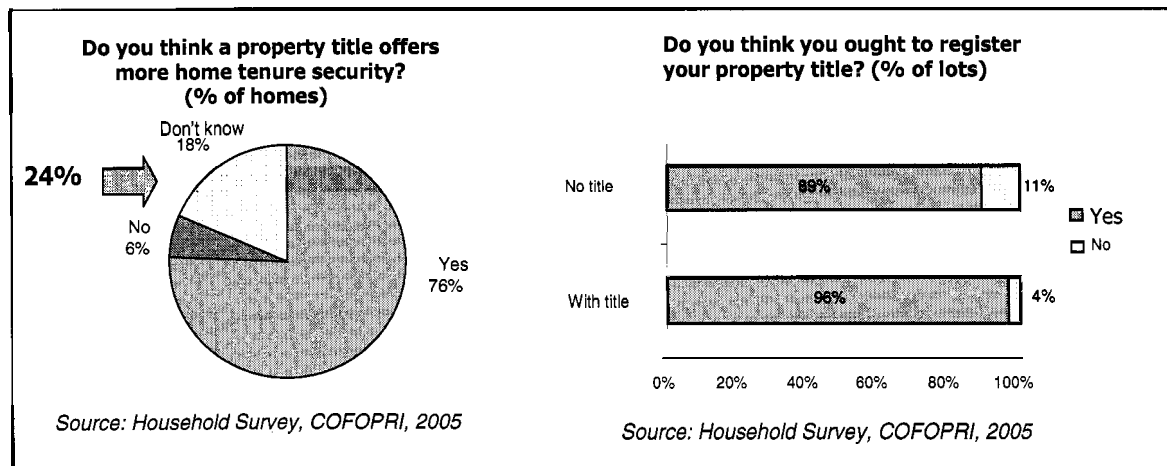


Figure No. 17

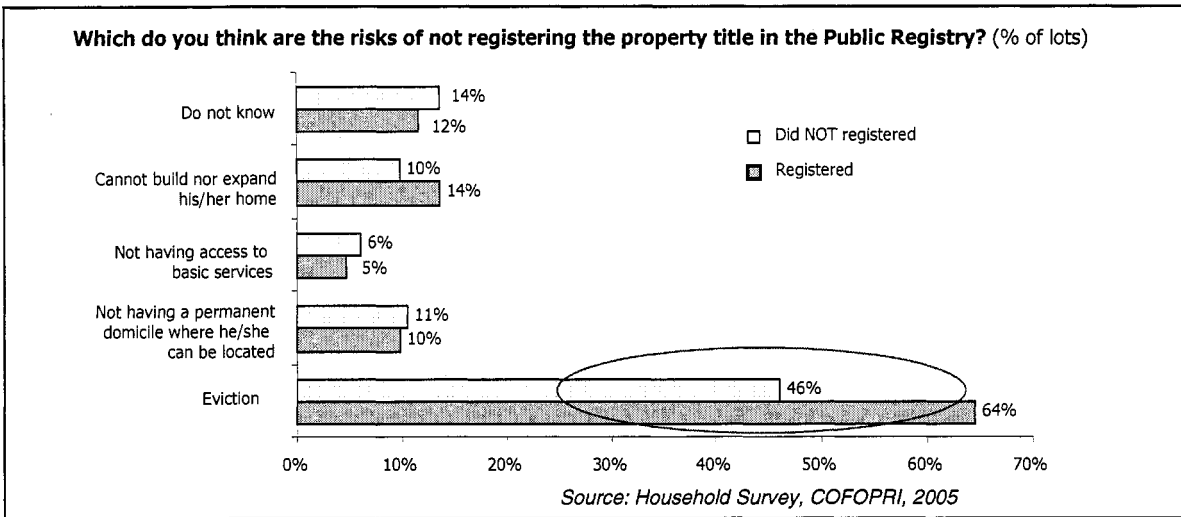
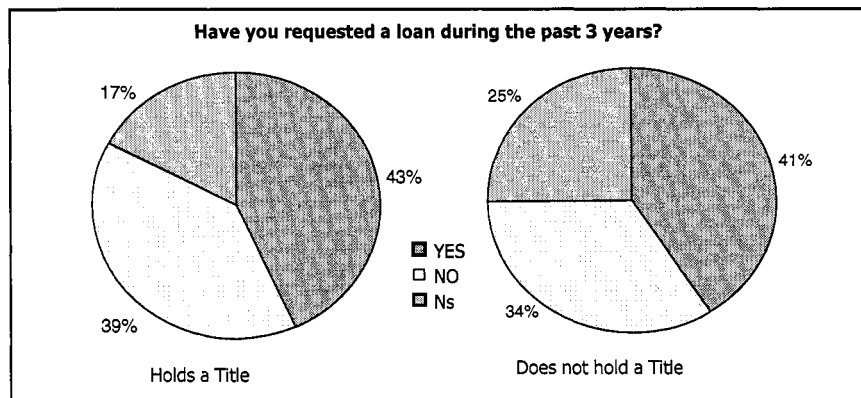


Figure No. 18



UPRP studies on the promotion of investment and credit activity in formalized areas concluded that many activities fell outside COFOPRI's jurisdiction, required the participation of other public and private entities, and could only be coordinated at the inter-institutional level. Lack of information about the advantages of legal security remains a major obstacle for the benefits of formalization to materialize and a dangerous incentive for reversal into informality. For instance, the provision of credit by the financial system to low-income socioeconomic levels suffers from three main constraints: (a) the high levels of informality of the sectors associated with the micro-finance business; (b) the high risk associated with low-income brackets; and (c) the absence of a credit culture. As revealed by a series of studies commissioned by the UPRP, the barriers to credit expansion include normative, cognitive and perception aspects.

Given the excellent response to the registry and credit promotion programs of the UPRP, and the interest shown by COFOPRI beneficiaries and financial institutions, those programs will be enhanced under the Project. Initiatives to disseminate information that facilitates investment and credit in formalized areas such as CIP and a real estate exchange, and campaigns to strengthen credit and registry culture will be expanded. They will help to build bridges between formalized owners and the market, particularly in the

areas of urban housing investment, and commercial opportunities in formalized areas. The development of a credit insurance system under Legislative Decree No. 495 may also be considered, to reduce the risk/costs of financial transactions among poor dwellers in informal settlements.

The Real Estate Exchange will stimulate/mobilize real estate in recently formalized areas to attract a critical mass of properties that are continually bought and sold, thus helping to increase the value of such properties. Increased transactions should favor the settlements' economic and social development, and discourage informal ownership. Furthermore, including the information on financial entities interested in financing this segment of the market helps to achieve one of the Project's main objectives: to enable formalized owners to convert their properties into liquid assets to generate additional resources in order to make investments and improve living conditions.

Innovative activities for the promotion of respect towards property rights will involve not only COFOPRI but also other public and private institutions as strategic allies, after a participatory process to develop a shared vision, and define the roles and responsibilities of each institution. Close involvement of critical actors will make the promotion program sustainable, allowing it to undertake consistent and integrated solutions. This program also requires a diagnostic phase that will identify the barriers/bottlenecks that are hindering respect for property rights or may limit the impact of facilitation activities.

As a first step in the determination of a municipal formalization strategy, the Project will help local stakeholders to determine the universe of non-registered or mis-registered properties (land and buildings), including not only informal settlements but also traditional areas where residential and commercial properties are located. Urban areas will be analyzed to determine where cadastre services can be provided on full cost-recovery basis and where special tariffs or no-cost principles should apply. In traditional areas, owners of commercial, industrial or residential buildings will contribute to the full cost of the cadastre service. This work on traditional areas will assist in private sector development through enhanced access to formal credit, while enlarging the municipal tax base.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

IBRD-financed

Sector issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Gradual decentralization process	Decentralization and Competitiveness Development Policy Loans I and II (DCDPLs)	S	S
Unresponsive justice system	Justice Services Improvement Project	S	S

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

Other external development agencies

Agency	Project Name	Objectives
CAF	Multi-sector Public Investment Program US\$9 million	Supports the initial implementation phase of SIAF-GL (equipment for all local governments and utilization of the system by local governments) and in the development of a cadastre module for Provincial Municipalities
CIDA	Citizen expectations and Reform of the State US\$0.08 million	Encourages civil participation in decision-making processes (including local government authorities)
GTZ	Strengthening of the National Audit System EUR 2 million	Adapts selected audit methods to regions and municipalities.
IADB	State Modernization and Decentralization Program US\$ 40 million	Supports effective processes to modernize and decentralize public administration in Peru, by redefining key institutional rules and putting new administrative structures and systems in place. Actions proposed include: (i) strengthening capacity for formulating and implementing national and sectoral policy; (ii) improving human resource management; (iii) supporting the installation of electronic government; distributing competencies and functions between different government levels; and (v) strengthening key institutions responsible for coordination and oversight of decentralization, as well as setting up suitable information for this purpose.
	Special Land Titling Project (Loan 906/OC-PE)	Registration of rural properties; Executing agency - MAG in coordination with SUNARP
USAID	Transparency and control of the decentralization process US\$ 0.90 million	Finances audits of regional governments and recommendations regarding internal control systems.

The Bank has been involved in the sector since the early 1990s as lead donor. GoP, through MEF, has ensured donor coordination, by closely supervising the implementation of the UPRP-PETT and sought to develop consistent approaches in spite of different funding sources for urban/rural titling. The Bank and the IADB have agreed to maintain regular communication to assure that both projects continue operating in parallel and using compatible methodologies.

A Bank-sponsored initiative for donor coordination on decentralization was launched for the preparation of DCDPL II and led to co-financing of that programmatic operation and generated a space for dialogue on a number of issues. The Project has built on that experience and Project design has benefited from suggestions from other donors like the IADB, Canada and Spain.

Programmatic Social Reform Loans (PSRLs). Three single-tranche loans have provided continued Bank support to GoP's medium-term social reform program whose medium term objectives are to improve: (i) the anti-poverty focus of public expenditures; (ii) the access of the poor to quality health and education services; and (iii) the transparency of social programs and the empowerment of program beneficiaries in their design and implementation. PSRL I emphasized transparency and budgetary protection of key social programs. PSRL II supported the design and launch of longer term reforms in anti-poverty programs and the social sectors. PSRL III is aimed at improving the anti-poverty focus of public expenditures, access of the poor to health and education programs, and transparency and social oversight of resource allocation. A fourth PSRL will be added to consolidate the social reform program in a decentralized context by end-FY05.

Accountability for Decentralization in the Social Sectors TAL. This TAL supports the implementation of a social program monitoring and evaluation system in the context of decentralization. It also supports the implementation of management agreements between the Ministry of Women and Social Development and local governments responsible for implementing food assistance and infrastructure programs.

**Box No. 1 - Public Sector Management, Governance and Growth:
The contribution of the Real Property Rights Project**

The proposed project will not only be a centerpiece for the Bank's Public Sector Management (PSM) work in Peru, but it will also make important cross-sectoral contributions. The Bank's PSM strategy in Peru is based both on the institutionality pillar of the overall government strategy expressed in the National Agreement and on the governance pillar of the CAS; it aims at enhancing the quality of public institutions, and at improving the efficiency, effectiveness and transparency of public sector management in order to improve growth, with a particular focus on institutional strengthening for decentralization, justice and property rights.

The Bank's PSM strategy in the areas of decentralization and institutional strengthening is supported by two DCDPLs already implemented and a current DPL under preparation, as well as a TAL supporting its implementation. Other PSM Bank work in Peru includes a Justice Services Improvement Project. This project will be key in contributing to the implementation of both the decentralization and competitiveness framework supported under the DCDPL loans and the TAL while having a particularly strong poverty impact. It will help pursue the objective of institutional strengthening by providing a specific instrument to support this framework and make a focused contribution to enhance the capacity of both central and subnational governments to deliver services for the poor. In particular, it complements the transparency initiatives in supporting the integrated financial management system for local governments, the SIAF, which includes a module supporting local government tax efforts. These efforts to develop and strengthen a fiscal cadastre will be closely coordinated with the property cadastre development under the proposed Project.

The project is also integrated into broader efforts to strengthen PSM efficiency by reducing bureaucratic bottlenecks in service-delivery and promoting broader administrative simplification, which is also promoted, for example, by the SIMTA initiative under the Office of the Prime Minister and supported by the DCDPL loans, aimed at administrative simplification including, at the local level, facilitating business opening and registration. The proposed project will also complement the Justice Services Improvement objectives of improving access to justice by providing access of the poor to property titling and the consolidating the rights of the poor over their most valuable assets. This in turn will help not only bring about greater legal security, but by enabling them to use their property as collateral, it will expand economic opportunities for the poor, help creating opportunities for private sector development, and providing support to local competitiveness.

Decentralization and Competitiveness Development Policy Loans (DCDPLs). Three operations will assist GoP in the decentralization of public functions and resources, and a competitiveness enhancement program, in tandem with measures to help ensure continued sound public finances and economic growth. In light of the significant progress achieved under the first loan, the second loan (approved in December 2004) continued supporting the efforts of GoP around three specific objectives: (i) protect fiscal

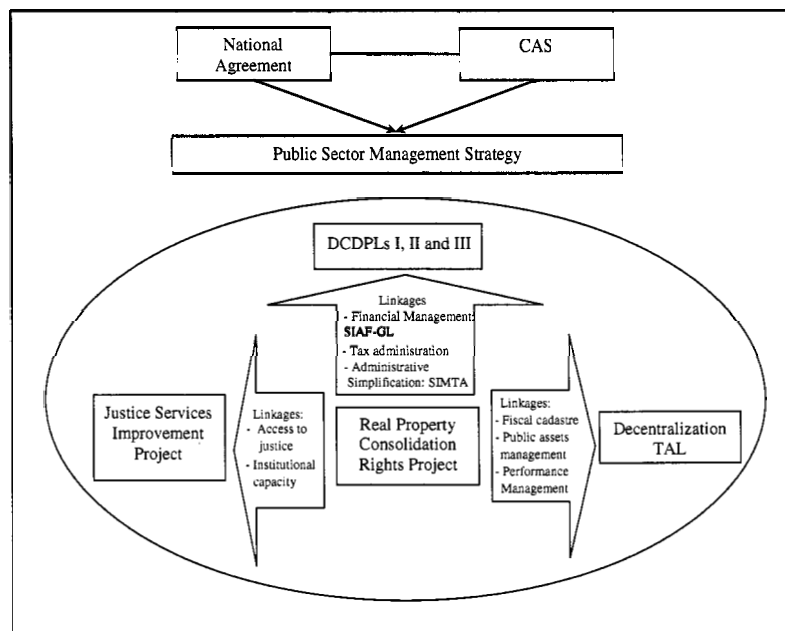
sustainability during Peru's transition to a more decentralized State; (ii) assist in strengthening management and fiscal capacity at sub-national levels for their progressive assumption of service responsibilities; and (iii) support the creation of a better regulatory and investment environment for upgrading Peru's competitiveness, with a strong regional focus. In particular, the third objective of the loan will support a set of microeconomic and institutional reforms that will enhance competitiveness and foster sustainable and equitable growth by favoring capital accumulation and productivity gains in Peru.

One of DCDPL II triggers was the implementation of the integrated financial management system for local government (SIAF-GL) that incorporates a cadastre module that will become part of the National Integrated Cadastre System²¹. DCDPL II supported the Government's tax reform objectives in two key areas: (i) strengthening the tax bases of regional and local governments or the association between revenue sharing and tax collections in each regional jurisdiction; and (ii) phasing out selected sectoral and regional tax exemptions. It strengthened the tax bases of regional and local governments for decentralization to be fully effective.

Institutional Capacity for Sustainable Fiscal Decentralization TAL. DCDPL II was **complemented** by this TAL that aims to assist GoP to: (i) improve fiscal planning and monitoring capacity of regional and local governments; (ii) enhance public expenditure efficiency; and (iii) strengthen decentralized public investment and asset management capacity.

Programmatic Growth and Fiscal Decentralization Structural Adjustment Loan. This Loan will focus on the broader issues of decentralization, including fiscal decentralization. It will provide the framework for decentralization by promoting the fiscal and institutional framework for reform. Key components of this loan are the design of the fiscal responsibility mechanisms for sub-national governments; the design of the accreditation system and performance contracts that will help maintain minimum sectoral standards for decentralized service delivery; civil service reform; and participatory budgeting.

Figure No. 1 The Project's contribution to the Bank's PSM



²¹ The development of the SIAF-GL has been completed. The budget execution module has been installed in 823 Provincial and District Municipalities that drew up their 2004 budgets using the module. Moreover, half of the municipalities with more than 40,000 inhabitants used the participatory process in drawing their 2005 budgets. Extensive user training has been provided.

Annex 3: Results Framework and Monitoring
PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

Results Framework

PDO	Outcome Indicators	Use of Outcome Information
<ul style="list-style-type: none"> The main objective of the Project is to consolidate a decentralized and sustainable quality property rights system that facilitates access to property rights for the Peruvian population. 	<ul style="list-style-type: none"> Appropriate legal, regulatory and institutional framework for real property rights protection and promotion adopted and operational. Low transaction cost of formalization and cadastre for users in terms of out-of-pocket expenditures and time. Low formalization and cadastre costs for GoP. Increased number of SUNARP users and internet services. Increased number of integrated real property cadastre and registry records. Average property value increase about US\$550 	<ul style="list-style-type: none"> Improve policy and institutional framework for real property rights access by users of the registry and cadastre services. Monitor performance of COFOPRI, SUNARP and IGN. Monitor evolution of geographical access by users. Monitor quality of real property records.
Intermediate Results	Results Indicators for Each Component	Use of Results Monitoring
Component One: Comprehensive Real Property Rights Policies		
a. Real Property Rights Knowledge Management.	<ul style="list-style-type: none"> Multi-sectoral commission established and operational. Diagnostic studies finalized (including subjects like cost-benefit, credit practices and land allocation). Workshops held with key stakeholders on real property rights issues. 	<ul style="list-style-type: none"> Monitor the inter-institutional coordination process. Ensure timely execution of required studies. Monitor participation and consultation activities.
b. Legal and Regulatory Reforms	<ul style="list-style-type: none"> Legal and regulatory reform proposals identified, prepared and agreed upon for real property rights, land administration and allocation, investment and credit promotion and inter-institutional coordination. 	<ul style="list-style-type: none"> Monitor the legal and institutional reform process.
Component Two: Decentralization and Formalization and Cadastre Services Provision		
a. Planning of training activities	<ul style="list-style-type: none"> National capacity-building strategy developed, including new formalization processes and partnerships. 	<ul style="list-style-type: none"> Align resources to strategy
b. Capacity-building and technical assistance for local governments on formalization services	<ul style="list-style-type: none"> 144 Provincial Municipalities provided formalization services with the technical assistance of COFOPRI under Participation Agreements. Approximately 471,000 titles issued by Provincial Municipalities with the technical assistance of COFOPRI. COFOPRI's Average titling unit costs not higher than \$100 per title. 	<ul style="list-style-type: none"> Gradual expansion into new Provincial Municipalities

<p>c. Capacity-building and technical assistance for local governments on cadastre services</p> <p>d. Supervision of capacity-building activities by COFOPRI</p>	<ul style="list-style-type: none"> • 427 District Municipalities provided cadastre services with the technical assistance of COFOPRI, under Participation Agreements. • Approximately 536,000 properties cadastered by District Municipalities with the technical assistance of COFOPRI. 	<ul style="list-style-type: none"> • Gradual expansion into new District Municipalities.
Component Three: Registry Services Provision Component		
<p>a. Real Property Registry Information Management</p> <p>b. Real Property Demarcation</p>	<ul style="list-style-type: none"> • Improved services to registry users. <ul style="list-style-type: none"> • 5,670,000 million property registry records under a new registry model. • New publicity services provided (summary sheets). • SUNARP-RP publicity services on-line no less than 67% of total publicity services. • SUNARP-RP average duration of registration of property transactions no longer than 5 days. • 14 permanent continuous monitoring GPS stations installed. • 4,955 control points added to geodetic network. 	<ul style="list-style-type: none"> • Evaluate quality and timeliness of registration services. • Evaluate performance of geodesic services. • Evaluate performance of national cadastre system.
Component Four: Formalization Benefits Dissemination.		
<p>a. Registry Culture Benefits.</p> <p>b. Credit Culture Benefits.</p> <p>c. Development of a Formal Real Property Rights</p>	<ul style="list-style-type: none"> • Evidence of socio-economic impact: <ul style="list-style-type: none"> • 124,000 property owners and 102,000 high school students reached by registry culture campaign. • Satisfactory evaluation of cultural appropriateness of formalization and cadastre services for indigenous peoples and women. • 8,000 micro-entrepreneurs and 99,000 high school students obtain access to credit information. • Increased access to credit evidenced by number and amounts of credit obtained by formalized users, with or without mortgages. • 129,000 recently formalized owners use real property exchange. 	<ul style="list-style-type: none"> • Periodic evaluation of the effects of communication and public education programs. • External and internal evaluations and user surveys show improved access to registry services.

Market		
d. Information about Real Property Rights Respect Benefits	<ul style="list-style-type: none"> 855 community leaders and 60,000 high school students reached by property respect campaign. 	
Component Five: Project Management, Monitoring and Evaluation.		
	<ul style="list-style-type: none"> Annual operating plans, progress reports, and ICR contribution started 3 months before due date. Annual operating plans, progress reports, and ICR delivered on time. Annual reviews and mid-term review carried out on time. TORs for independent impact evaluation prepared and consultant contracted by December 2009. Periodic evaluations conducted on time. Disaggregated socio-economic information generated by the Project and user feedback utilized in decision-making. 	<ul style="list-style-type: none"> PCU performance in financial management and procurement continuously monitored and evaluated. Prompt remedial actions taken in case of deviation from agreed schedules. Advisory Committee carries out private sector and civil society vetting of monitoring and evaluation results.

Arrangements for results monitoring

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		Responsibility for Data Collection
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	
<ul style="list-style-type: none"> • Appropriate legal, regulatory and institutional framework for real property rights protection and promotion adopted and operational. • Low transaction cost of formalization and cadastre for users in terms of out-of-pocket expenditures and time. • Low formalization and cadastre costs for GoP. • Increased number of SUNARP users and internet services. • Increased number of integrated real property cadastre and registry records. • Average property value increase about US\$550 							<ul style="list-style-type: none"> • CAS progress reports (Every two years). • SUNARP, COFOPRI and IGN annual reports. 	<ul style="list-style-type: none"> • COFOPRI and SUNARP legal and regulatory framework documents. • Studies/surveys financed by the Project. 	<ul style="list-style-type: none"> • SUNARP, COFOPRI, IGN.

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		Responsibility for Data Collection
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	
Results Indicators for Each Component									
Component One:									
<ul style="list-style-type: none"> Multi-sectoral commission established and operational. Diagnostic studies finalized (including subjects like cost-benefit, credit practices and land allocation). Workshops held with key stakeholders on real property rights issues. 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. 	0	1	2	3	4	4	<ul style="list-style-type: none"> Bank supervision mission reports (bi-annual). 	<ul style="list-style-type: none"> COFOPRI, SUNARP and IGN legal and regulatory framework documents. Studies/Surveys financed by the Project. 	<ul style="list-style-type: none"> COFOPRI.
	0	1	2	3	4	4			

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component Two:									
<ul style="list-style-type: none">National capacity-building strategy developed, including new formalization processes and partnerships.144 Provincial Municipalities provided formalization services with the technical assistance of COFOPRI under Participation Agreements.	0	28	57	86	115	144	<ul style="list-style-type: none">PCU surveysCOFOPRI annual reports	<ul style="list-style-type: none">Strategy Paper	<ul style="list-style-type: none">COFOPRI (including data gathered from Provincial and District Municipalities)
<ul style="list-style-type: none">Approximately 471,000 titles issued by Provincial Municipalities with the technical assistance of COFOPRI.	0	81,000	171,000	269,000	370,000	471,000			
<ul style="list-style-type: none">COFOPRI's Average titling unit costs not higher than \$100 per title.	192	180	170	150	130	100			
<ul style="list-style-type: none">427 District Municipalities provided cadastre services with the technical assistance of COFOPRI, under Participation	0	85	170	255	340	427			

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Agreements. • Approximately 536,000 properties cadastered by District Municipalities with the technical assistance of COFOPRI.	0	107,000	214,000	321,000	428,000	536,000			
Component Three :									
• Improved services to registry users.	0	1,134,000	2,268,000	3,402,000	4,536,000	5,670,000	• SUNARP client surveys (annual). • SUNARP annual reports. • Bank supervision mission reports (bi-annual).	• Studies/Surveys financed by the Project. • SUNARP registry records.	• SUNARP.
• 5,670,000 million property registry records under a new registry model.	0	0	0	50,000	128,000	233,000			
• New publicity services provided (summary sheets).	0	907,000	1,866,000	2,847,000	3,861,000	4,903,000			
• SUNARP-RP publicity services on-line no less than 67% of total	5	5	5	5	5	5			
• SUNARP-RP average duration of registration of property transaction in SUNARP-RP no longer than 5 days.	0	0	5	10	14	14			
• 14 permanent continuous monitoring GPS stations installed.	0	1,150	2,475	3,805	4,955	4,955			
• 4,955 control points	0								

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting	
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Responsibility for Data Collection
added to geodetic network.								
Component Four:								
• Evidence of socio-economic impact:								
• 124,000 property owners and 102,000 high school students reached by registry culture campaign.	0	0	31,000	62,000	93,000	124,000	• 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.
• Satisfactory evaluation of cultural appropriateness of formalization and cadastral services to indigenous peoples and women.	0	0	2,000	4,000	6,000	8,000		
• 8,000 micro-entrepreneurs and 99,000 high school students obtain access to credit information.	0	0	24,750	49,500	74,250	99,000		
• Increased access to credit evidenced by number and amounts of credit obtained by formalized users, with or without mortgages.								
• 129,000 recently formalized owners use real property exchange.	0	0	32,250	64,500	96,750	129,000		

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
<ul style="list-style-type: none"> 855 community leaders and 60,000 high school students reached. 	0 0	0 0	214 15,000	428 30,000	641 45,000	855 60,000			
Component Five: <ul style="list-style-type: none"> Annual operating plans, progress reports, and ICR contribution started 3 months before due date. Annual operating plans, progress reports, and ICR delivered on time. Annual reviews and mid-term review carried out on time. TORs for independent impact evaluation and consultant contracted by December 2009. Periodic evaluations conducted on time. Disaggregated socio-economic information generated by the Project and user feedback utilized in decision-making. 	N/A N/A N/A N/A	Sep. Dec.	Sep. Dec.	Sep. Dec.	Sep. Dec.	Sep. Dec.	<ul style="list-style-type: none"> Bi-annual progress reports delivered by PCU to the Bank. Bank Project supervision reports (bi-annual) 	<ul style="list-style-type: none"> Consultants' reports. PCU reports. Independent impact evaluation. 	<ul style="list-style-type: none"> PCU.

Annex 4: Detailed Project Description

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

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 the 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 taking into account the new institutional realities determined by decentralization: the Provincial and District Municipalities have moved to the “driver’s seat” of the formalization and cadastre processes. The Project will address several issues in order to discourage 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 and cadastre programs, in selected remnant areas that require new cost-effective methodologies; (c) the full-fledged integration of spatial and legal property information records, to facilitate low-cost, easy access for the users; and (d) the effective economic utilization of property rights and enhanced economic activity in formalized areas.

1. Comprehensive Real Property Rights Policies Component

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 policy reforms will lead to equitable and sustainable socio-economic outcomes. It will finance the technical assistance required to facilitate real property rights knowledge management, and to prepare sound legal and regulatory reform proposals. Topical areas include 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.

a. Real Property Rights Knowledge Management

The Project will finance the establishment and operation of a multi-sectoral commission to analyze priority issues for real property rights like: (i) simplification of the legal, regulatory and institutional framework, to avoid possible function overlap between different Government levels as well as promoting social control of Government agencies, including: (A) simplified procedures to improve low-cost access; and (B) capacity-building to implement such simplified procedures and proactive mechanisms; and (ii) new institutional framework for the generation and administration of land information.

The Project will also finance socio-economic studies, like cost-benefit analysis of: (i) access to formality under various scenarios (land adjudication, construction permits and building formalization); (ii) remaining informality (lack of access to formal credit); (iii) staying formal (including the costs of registry requirements for subsequent transactions); (iv) credit practices; and (v) case studies on land allocation.

Through the multi-sectoral commission the research agenda will be set in conjunction with academic institutions, private sector groups, NGOs involved in urban development, access to land, housing and credit issues, gender and front-line workers of COFOPRI and SUNARP. A broad participation and consultation process among these key stakeholders for real property rights issues will take place for the development of real property rights policies at the national level (including rural and urban areas) and the definition of the roles and responsibilities of the institutions involved. This process will help: (i) clarify related functions at different levels of Government; and (ii) identify and prioritize issues, options, and possible solutions, in order to develop a shared vision, and prepare joint action plans.

b. Legal and Regulatory Reforms

On the basis of the inter-institutional coordination, studies, consultation and participation advanced under the previous subcomponent, this subcomponent will support the preparation of policy reform proposals for the Borrower's new legal and regulatory framework for: (i) real property rights: to operationalize the provisions of Laws No. 28294 and 28391, the Project will finance the drafting of the required implementing regulations and instructives. Similarly, the Project may finance the development of regulations that facilitate access to property rights through a land administration system, the preservation of the efficiency gains of the UPRP in terms of user-friendly rules and procedures, and the introduction of mandatory registration; (ii) land administration and allocation: the processes to acquire State and private-owned land should be simplified. Project-financed proposals will standardize criteria and processes to be applied by different competent agencies; (iii) investment and credit promotion: As a part of the overall strategy of the GoP for access to land and housing by the Peruvian poor, the Project will support the development of equitable and sustainable land and housing markets through the legislation that would also help prevent invasions and facilitate access to credit; and (iv) inter-institutional coordination.

2. Decentralized Formalization and Cadastre Services Provision Component

The objective of this component is to provide formalization and cadastre services in 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 for Provincial and District Municipalities. 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 GoP be able to avoid reversion to informality. It will comprise the following subcomponents: planning of training activities by COFOPRI, capacity-building and technical assistance for local governments on formalization services, capacity-building and technical assistance for local governments on cadastre services, supervision of capacity-building activities by COFOPRI.

Municipalities will gradually take over formalization and cadastre responsibilities because: (a) the municipal government level is the most appropriate for these activities under national standards established and supervised by COFOPRI; (b) formalization and cadastre activities generate experience in the use of land information tools and facilitate technology transfer which will be useful for urban development, land management and building regulation functions; (d) municipalities' capacity to update cadastre records is crucial for project sustainability; (e) municipalities help generate solutions to housing demand by supporting housing markets; and (f) using land information municipalities can increase their tax revenues and contribute to the cost of information maintenance.

This component will finance technical assistance for the Participating Municipalities and COFOPRI in order to design suitable strategies. It will provide the tools for the development of standard control mechanisms for the decentralized application of formalization and cadastre processes and the nation-wide supervision of these processes when conducted by Participating Municipalities.

- a. Planning of training activities by COFOPRI
- b. Capacity-building and technical assistance for local governments on formalization services

Provision of technical assistance and training to the Participating Municipalities and COFOPRI in order to design and implement a formalization strategy adapted to the particularities of each Municipality, including: (i) activity planning, comprising municipal capacity diagnostic, informal possessions diagnostic, and municipal strategy development; (ii) municipal capacity-building, including workshops, internships, in-service training, distance training, ex-post evaluation, and follow-up groups; and (iii) area

and lot formalization, including dissemination, inter-institutional coordination, census-taking and publication, field work categorization, mapping, legal analysis, titling and registration.

Specific formalization activities by the Participating Municipalities, in partnership with COFOPRI, may comprise: (i) establishment of formalization units in Provincial Municipalities in coordination with the cadastre units of District Municipalities; (ii) completion of areas where COFOPRI and the Provincial Municipalities worked under the UPRP; (iii) re-engineering of traditional formalization processes to adapt them to the particulars of each Provincial Municipality; and (iv) establishment of specific cost-effectiveness and timeliness standards. Area and lot formalization will also comprise development of reliable base and specific cartography, including check points, field data, cartography editing, graphic analysis, validation and processing.

Estimated Cadastre Services Demand

DEPARTAMENT	Districts	Cadastre Units
AMAZONAS	16	22,024
ANCASH	16	12,087
APURIMAC	21	23,042
AREQUIPA	1	841
AYACUCHO	1	569
CAJAMARCA	64	81,927
CALLAO	1	526
CUSCO	52	69,426
HUANCAVELICA	14	14,525
HUANUCO	43	50,006
JUNIN	26	33,642
LA LIBERTAD	7	4,686
LAMBAYEQUE	1	2,164
LIMA	7	18,556
LORETO	20	20,272
MADRE DE DIOS	6	6,388
PASCO	9	8,992
PIURA	30	40,444
PUNO	55	76,440
SAN MARTIN	30	44,236
TUMBES	4	2,825
UCAYALI	3	2,022
Estimated Demand	427	535,639

c. Capacity-building and technical assistance for local governments on cadastre services

The Project will provide technical assistance and training to the Participating Municipalities and COFOPRI in order to design and implement a cadastre strategy adapted to the particularities of each Municipality, by: (i) activity planning, through the development of a municipal strengthening program tailored to the requirements of the Participating Municipalities, including a training needs diagnostic (based on the previous assessment of the capacity of the Participating Municipalities) and training proposals; (ii) Municipal capacity-building, including workshops, in-services training, distance training and ex-post evaluation. The provision of traditional training will comprise specialized modules preparation, validation and production of training materials, while the provision of distance training will comprise preparation and validation of appropriate materials, interactive modules and tutoring. The training programs will involve technology transfer of cadastre capabilities from COFOPRI to the Participating Municipalities; (iii) graphic and alphanumeric data collection, including geodesic control and cadastre cartography, coding and numbering, demarcation and census taking, and data processing; and (iv) unified cadastre code allocation, including publication of cadastre information and registry-cadastre linkage.

Implementing municipal cadastres will also require: (i) development of geo-referenced cartographic databases on the basis of satellite images and field surveys that will categorize and codify areas into blocks and lots through alphanumeric information collected in standard forms; (ii) development of

software applications to process and analyze municipal cadastral data by cross-referencing graphic and alphanumeric information; (iii) complementing the property information collected during the formalization process with additional information required by the Municipalities for land administration and tax collection purposes; (iv) establishment of appropriate quality control mechanisms; and (v) design and implementation of a strategy for the regular updating of the municipal cadastral information collected.

Specific cadastre activities will be conducted in accordance with the provisions of the National Cadastre System, so that they may be used to improve land conditioning and zoning, and building control, including: (i) training of municipal employees so as to maximize readiness prior to the assumption of specific responsibilities; (ii) developing the operating procedures for the implementation of the Single Cadastre Code which can be used not only for registration purposes but also for land planning and zoning at the local level; (iii) identification of appropriate operational arrangements; (iv) definition of the scope of the municipal cadastres, on the basis of a demand analysis that determines potential users, users' needs and willingness to pay, data suppliers, mechanisms to capture and maintain data sets, and cost-benefit ratios; and (v) design and implementation of flexible cadastre information software applications that will process and analyze information generated during the titling processes that can be adapted to incorporate additional information required by municipal authorities.

Preference may be given to operations covering several Municipalities and using municipal facilities to reduce costs and to facilitate technology transfer. COFOPRI will provide continuous support to municipalities for them to maximize the benefits of appropriate practices in the administration and analysis of cadastre information. Municipalities will have full access to the new cadastre information under the SIAF-GL module that allows a property and owners' information to be used for tax purposes.

d. Supervision of capacity-building activities by COFOPRI

3. Registry Services Provision Component

The objective of this component is to support the integration of real property data and the establishment of the national cadastre system in SUNARP-RP to improve: (a) the quality of real property registry services; and (b) access for the Peruvian population. This component supports SUNARP's Real Property Registry Information System and real property demarcation activities.

a. Real Property Registry Information Management

This subcomponent will support the provision of technical services and training to support SUNARP-RP's national coverage under an efficient registration model, including: (i) revision of data models for SUNARP-RP, comprising analysis and definition of the mechanisms for the consolidation, standardization and migration of SUNARP-RP databases through: (A) review of existing data models (SARP and SIR), and design and implementation of a new SUNARP-RP data model (Unified Registration System-SUR); (B) integration of SUNARP-RP databases, including individual checks of physical and legal records for their subsequent incorporation into the new data model; and (ii) development and implementation of a web-based service platform for the new SUNARP-RP data model, as a modern tool of registry publicity complementary to traditional services, comprising specific web-based applications.

b. Real Property Demarcation

(i) Modernization and densification of the Borrower's geodesic network as a proper framework of spatial reference for data validation of cadastral surveys, through the operation and maintenance of a

network of permanent monitoring stations, comprising the adoption and dissemination of appropriate technical standards, nomenclature and processes, through: (A) establishment and operation of 14 permanent monitoring stations with geo-positioning system (GPS) equipment for data transfer among member agencies of the National Cadastre System; and (B) densification of GPS stations in Participating Municipalities, to assist in the development and maintenance of up-to-date urban cartography. Through this technical tool SUNARP-RP will start developing the unified cadastral model provided by the National Integrated Cadastre System Law that will make possible to input/retrieve data into/from a single common cadastre database through modern systems for the functions of: (A) planning and management; (B) data gathering and processing; and (C) generation, administration, maintenance and update of real property cadastre information (alpha-numeric and graphic); and (ii) capacity-building of the national cadastre system through the provision of training to the professional and technical staff of the member institutions of the system on the principles and modalities for the implementation of the National Integrated Cadastre System Law, including training in the generation, administration, maintenance and update of cadastre data.

4. Formalization Benefits Dissemination Component

The objective of this component is to support the economic utilization of property rights and foster real property-related economic activity in Project areas. Specific goals are: (a) providing practical information on the linkage between registration and credit as a tool for individual empowerment; (b) reducing information gaps between formalized owners, and credit providers; (c) understanding real estate markets in marginal areas in order to identify measures to encourage and facilitate real property transactions; and (d) developing strategic alliances among the public and private sectors to promote business development and property respect in Project areas.

This component will finance technical assistance to develop and implement innovative communications and public education strategies in the fields of registry benefits, credit benefits, and property rights markets and culture in the same geographical areas where Component 2 will be implemented. These strategies will aim at promoting individual and community empowerment and equitable participation. To that end, the Project will develop cost-effective strategies that are gender-aware, sensitive to ethnicity and multiculturalism, and grounded in an understanding of local and regional differences in language and communication codes.

These communications strategies will also aim at sensitizing local and regional governments and the private sector through messages that respond to regional and local culture; a national and homogenous strategy would not be appropriate for a multicultural country that is undergoing a decentralization process. The Project will also develop alliances with local institutions that can support the implementation of these strategies.

a. Registry Benefits

Technical assistance will be provided under the project to develop and implement innovative public education campaigns in the area of registry culture, by revising and expanding current COFOPRI and SUNARP-RP programs to inform the Borrower's population about registry issues like: (i) the significance of the property registry for legal security. Failure to keep up-to-date information in the registry, either because of not-registered subsequent transactions or changes in properties' features would generate new issues of property informality within a few years; and (ii) the establishment of the National Cadastre System that makes mandatory a Single Cadastre Code issued by the District Municipalities, to avoid this legal mandate to be seen as a barrier to registry services or a tax requirement but rather as a further safeguard of legal security. These public education campaigns targeted at recently formalized groups will help minimize the risk of reversion into informality by addressing cultural barriers (attitudes and behaviors) for registry access.

b. Credit Benefits

(i) Credit culture: The project will provide technical assistance to continue COFOPRI's public education campaign to promote credit culture with an innovative approach that brings together financial institutions and micro-enterprises. This activity will revise and expand COFOPRI related programs so as to develop a second phase not only in Metropolitan Lima but also in other major cities (such as Piura, Chiclayo, Trujillo, Chimbote, Huancayo, Ica and Arequipa) with the assistance of adult education specialists. The credit culture program will: (1) place special emphasis on family-run home-based businesses and small enterprises as the segment with the best chances to access credit; (2) promote the active participation of financial institutions; and (3) develop tools to transfer know-how to micro-finance institutions so that they may gradually take over implementation.

(ii) Positive Information Bureau (*Central de Información Positiva* - CIP): The project will enhance this instrument for the promotion of small investment and credit programs, and commercial and productive opportunity links, centered on specific financial products and services in formalized areas. CIP will allow financial institutions to access information on credit history and repayment capacity. The Project will support: (1) consolidation of CIP to expand coverage and impact in terms of widespread dissemination of market-relevant information, including business opportunities; and (2) connection with other databases. Emphasis will be placed on improving CIP in close consultation with potential clients to ensure that CIP is user-focused, demand driven and appropriately priced and delivered.

c. Development of a formal real property rights market

The project will provide technical assistance to develop and implement a real estate exchange. This database will contain information on supply and demand of properties in recently formalized areas to be accessed massively through the internet. The project will provide the technical assistance required for the design and implementation of the database; information will be classified by towns, districts, human settlements, popular urbanizations, housing programs and/or populated centers. It will include: (1) software applications linking supply and demand data on formalized properties which can be easily accessed for free by interested parties, through internet kiosks; and (2) information on financial entities willing to grant financing for property transactions in formalized areas. The exchange will be designed to stimulate the real estate market within the low-income segment of the population through easy access to reliable information on potential formal sales and purchases.

d. Information about real property respect benefits

The Project will also provide technical assistance to develop and implement public education campaigns in the area of real property rights respect. This activity will support the design and implementation of promotion campaigns to: (1) develop a shared vision among the social and institutional actors involved: workshops will be carried out to identify and characterize the issues, propose and prioritize possible solutions, and undertake joint actions; and (2) promote campaigns on the rights and responsibilities of owners: communication campaigns will be designed in order to generate a participatory process within community organizations aimed at promoting new attitudes and behaviors.

5. Project Management, Monitoring and Evaluation

The objective of this component is to achieve successful Project implementation. It supports: (a) standard Project coordination; and (b) specific monitoring and evaluation activities, like (i) assessments of the transparency and accountability framework of COFOPRI and SUNARP-RP, including reviews of outreach and disclosure procedures, beneficiary selection mechanisms, and appropriateness of communications and educational tools; and (ii) evaluation of socio-economic outcomes, through: (A)

continuous follow-up of poverty indicators in formalized areas; (B) assessment of market mobilization of real property rights in terms of transaction numbers and prices, credit and investment directed to formalized properties; and (C) review of the impact of Project communications and educational activities in terms of knowledge gains and behaviors changes in individuals and communities.

PCU will be responsible for the administration of procurement, disbursements and financial management matters. PCU will also be in charge of Project monitoring and evaluation activities, in liaison with COFOPRI, SUNARP, the Participating Municipalities and strategic partners.

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). The project operational framework will be specifically reviewed through: (a) a qualitative element provided by external watchdog activities involving stakeholders' representatives like formalization beneficiaries, users of integrated cadastre-registry in the private sector (real state investors, financial sector institutions, notaries, private utilities) and in the public sector (mayors, public utilities) to ensure the Project achieves its objectives; and (b) a quantitative element based on the 2000-2004 baseline to construct a panel and follow it up by 2007 and 2009 for monitoring the impact of formalization among beneficiaries. The result of these surveys would be presented to the Advisory Committee for review and comments.

Annex 5: Project Costs
PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

Project Cost By Component and/or Activity	Local US \$million	Foreign US \$million	Total US \$million
1. Comprehensive Real Property Rights Policies	0.4	0.0	0.36
2. Decentralized Formalization and Cadastre Services Provision	17.5	2.5	21.21
3. Registry Services Provision	12.7	2.3	15
4. Formalization Benefits Dissemination	4.1	0.0	2.05
5. Project Management, Monitoring and Evaluation	2.1	0.0	3.03
Total Baseline Cost	36.8	4.8	41.66
Total Project Costs¹	38.8	5.1	41.66
Interest during construction	0	0	0
Front-end Fee		0.065	
Total Financing Required	38.8	5.1	41.66

¹Identifiable taxes and duties are 15% of total cost, and the total Project cost, net of taxes, is US\$35.44 million. Therefore, the share of Project cost net of taxes is about 85 %.

Annex 6: Implementation Arrangements

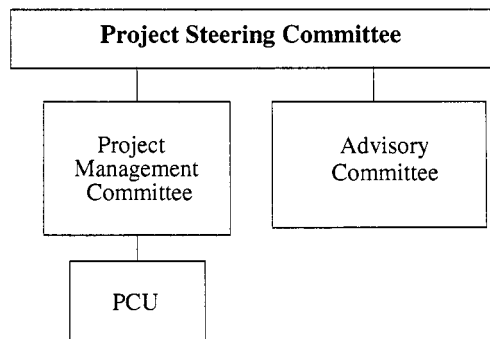
PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

a. Implementation Period. The Loan is expected to become effective by June 2006 and the Project will be implemented over a five year period (through June 30, 2011).

b. Implementing Agency. This Project will be carried out by COFOPRI under a Subsidiary Agreement with MEF. Components 1 and 4 will be the sole responsibility of COFOPRI, while responsibility for Component 2 will be shared with participating Municipalities under Participation Agreements, and the responsibility for Component 3 will be shared with SUNARP and IGN under Cooperation Agreements. 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 substance of the implementation arrangements established under the UPRP should be maintained. Cooperation Agreements will be entered into between COFOPRI, SUNARP and IGN 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. These agreements will specify the role and responsibilities of COFOPRI and each municipality (according to their different levels of institutional capacity) and the resources each will contribute to the common endeavor, including the periodic maintenance of the registry-cadastre system, and the strengthening of the municipality technical capacity.

Under the Loan Agreement, a Project Steering Committee with representatives from MEF, MINJUS, COFOPRI, IGN, SUNARP, MEF and civil society will be responsible for overall Project supervision including: (a) a approval of each Annual Operating Plan and any modification thereof; (b) review of Project implementation audits and reports; and (c) responsibility for the preparation of the short list for the selection of key staff for PCU under competitive and transparent procedures. The Bank will review the qualifications and experience of the individuals in the short list and the procedures followed for their selection. A Project Management Committee will be responsible for supervision of the PCU and overall management of the Project, including representatives of COFOPRI, SUNARP and IGN. An Advisory Committee, comprising representatives of the private sector, civil society, and academic institutions, will provide regular feedback on the performance indicators. Under the Participation Agreements, a local task force comprising representatives of COFOPRI and Participating Municipalities will have field-level implementation responsibilities for formalization, and the establishment and operation of real property cadastres.



d. Project Management: PCU will be in charge of the operational aspects. PCU will have primary responsibility for: (a) preparing the Annual Operation Plans; (b) overall Project monitoring and

evaluation; (c) processing of documentation required for disbursement of Loan proceeds and for procurement of goods, works and services under the Project; (d) updating the Procurement Plan and preparing standard bidding documents, technical specifications for goods, as well as requests of proposals, terms of reference and short lists for consultants' services; and (e) preparing financial statements and FMRs, and maintaining the records and accounts. PCU will be staffed with a Project Manager, an administrative coordinator, a monitoring and evaluation coordinator (the three subject to the Bank's no-objection irrespective of source of financing) and specialists in information technology, financial management and procurement, and socio-economic monitoring.

For the implementation of the decentralized formalization and cadastre services subcomponent, COFOPRI will establish decentralized task forces to work with Provincial and District Municipalities. These temporary task forces will assure timely and efficient implementation. Once capacity-building on formalization and cadastre has finished in one municipality, the unit personnel will be reassigned to other municipalities to start a new task. The task forces will be responsible of the technical quality of formalization and cadastre services, including quality control of goods and services financed by the Project, and the effectiveness of the participatory/consultative mechanisms designed to involve different actors of civil society and the private sector.

e. Accounting, Financial Reporting and Auditing Arrangements: PCU will handle the flow of funds and to that end it will establish and maintain separate Project records and accounts, and provide periodic reports on the use of those resources. Such records and accounts will be maintained in order to reflect, in accordance with sound accounting practices, the operations, resources, expenditures and results of each Project activity.

Financial management and procurement assessments have been carried out during Project preparation to identify areas for further strengthening of PCU. For purposes of Project implementation, PCU will be staffed at all times with qualified financial management and procurement professionals. Adequate financial management arrangements for the Project will be included in the Operational Manual which will be a condition of effectiveness.

PCU will prepare Project financial statements. The Project accounts and records will be audited periodically by independent auditors acceptable to the Bank in accordance with Bank guidelines. A certified copy of the audit report will be furnished to the Bank no later than six months after the end of each GoP fiscal year.

f. Bank supervision. Annual reviews by November each year will be required in the legal documents. They will include a thorough evaluation of the key aspects of Project implementation: (i) quality control of formalization activities, (ii) technological flexibility; (iii) establishment and enforcement of single national standards; and (iv) technical compatibility and operational complementarities with other projects, like IRCN and PETT.

Annex 7: Financial Management and Disbursement Arrangements
PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

Financial Management Assessment

A Joint Financial Management and Disbursement Assessment was performed by the regional Senior FMS and LOA Senior Finance Officer, in accordance with OP/BP 10.02 and the Guidelines for Assessment of Financial Management Arrangements in World Bank Financed Projects. The evaluation was performed on site from December 14 to 16, 2004, and followed up until to negotiations through regular on site meetings with the project preparation team.

The main conclusions reached were as follows:

1. Overall Conclusion: This project is a "repeater project". The original project was implemented using transaction-based disbursements and the assessment focused on evaluating PCU capacity and systems readiness for scaling-up this Project by using country systems (*Sistema Integrado de Administracion Financiera* - SIAF) and support report-based disbursements.

Overall, during implementation of the UPRP, the PCU maintained financial management arrangements, systems and practices that were *satisfactory* to the Bank and adequate to provide the Bank with accurate and timely information regarding project resources, expenditures and activities with the exception of the systems' inability to produce adequate Financial Monitoring Reports (FMRs). COFOPRI has taken steps to improve capacity to transition into report-based disbursements. The Financial Management Action Plan set forth below (which includes scaling-up the integrated financial management system) is being satisfactorily implemented and should be achieved by effectiveness of the Loan.

Summary Risk Assessment:- Both inherent and control risks are rated **moderate**. Budget reports are prepared quarterly and issued within 15 days of the period end and there are no material concerns about data accuracy; the legal and institutional framework at country and entity level are adequate and performance in core aspects of accounting, internal control and financial reporting have been satisfactory; there is a sound framework for external oversight and adequate institutional arrangements to ensure that independent external auditors are appointed on time. Audit reports have been satisfactory and on time and management letters have revealed no major accountability issues. Funds flow arrangements are simple and have functioned well in the first phase.

2. Organization and Staffing: The definition of roles and responsibilities of COFOPRI and SUNARP, through the Cooperation Agreement is critical. The two institutions have agreed that COFOPRI will conduct all procurement processes, including those in connection with activities to be executed by SUNARP; COFOPRI will also carry out administrative functions like payment and reporting of expenditures on behalf of SUNARP for which the later will provide COFOPRI the required supporting documentation. As long as there is timely and adequate flow of funds and supporting documentation to cover expenditures made, this arrangement would be acceptable to the Bank

The proposed organizational chart for the project was reviewed and suggestions were made which COFOPRI took into account in the final proposal. COFOPRI maintained adequate minimum staffing after the closing of the UPRP to finalize the preparation of this Project, and to ensure that systems modifications were adequately implemented as per the agreed Action Plan set forth below.

3. Accounting Policies and Procedures: The project will be implemented in accordance with: (a) the National Control System, regulated by the Supreme Audit Institution; and (b) the National Accounting System, regulated by the Accountant General. The chart of accounts used in the first loan (based on the

Plan Contable Gubernamental del Sistema Nacional de Contabilidad) would be adapted to reflect Project design, i.e. components, disbursement categories, and financing sources and accounts will continue to be prepared on a cash basis. The Operational Manual will be revised and updated by the PCU and submitted to the Bank for review and comments before negotiations and to be approved before effectiveness of the loan.

4. Budgeting procedures and impact on flow of funds: Planning and budgeting will be in line with general Government procedures regulated by the Annual Budget Law and operated under SIAF. The procedures in effect under the UPRP will continue to apply and budgetary control will consist of: (a) timely preparation and approval of annual programs and budgets; and (b) verification that budget information is entered and available in the accounting system to allow timely recording of commitments, payments and accruals. Since the ability to make projections of cash flow requirements will be important for the successful implementation of report-based disbursements, COFOPRI will need to synchronize Project planning, and execution of payments and authorization by MEF of withdrawal application requests to be submitted to the Bank. To that end, COFOPRI will need to prepare and analyze on a quarterly basis budget execution variances.

5. Financial Monitoring Reports: The UPRP was approved under LACI and was required to provide Project Monitoring Reports (PMRs). During UPRP implementation, COFOPRI produced very limited PMRs and was not able to produce reports which would allow for reconciliation of physical and financial progress. COFOPRI has arranged for the installation of the project execution module (MEP) of SIAF in order to be able to effect the necessary adjustments to produce adequate FMRs, including the necessary documentation to support a Report-based disbursement mechanism.

The core FMRs will include

- A financial section specifying sources and applications of project resources and a statement of investment by project component reporting the current quarter and the accumulated operations against ongoing plans.
- An output monitoring section that: (i) describes physical progress in the implementation of the Project, both cumulative and for the period covered by the report; and (ii) explains variances between the actual and previously forecast implementation targets.
- A procurement section setting forth the status of procurement under the project and expenditures under contracts financed out of the proceeds of the Loan, as of the end of the period covered by the report.

6. External audit: UPRP auditors issued unqualified opinions on project financial statements over the last period audited January 1, 2003 - June 30, 2004 and no reportable material weaknesses in the Internal Control Memorandum for such period were identified in such report. Prior year (2002) had been audited by another firm which also issued unqualified opinion on financial statements. Overall, during UPRP implementation COFOPRI consistently took timely and complete corrective actions to address weaknesses identified by the auditors or the Bank.

This Project will continue to provide the Bank annually with financial statements audited by an independent auditing firm acceptable to the Bank, under terms and conditions satisfactory to the Bank which will include an opinion on Project financial statements and a management letter on the internal control structure. Annual audit reports with the related statements will be submitted to the Bank within six (6) months of the end of the Borrower's fiscal year. All supporting records would be maintained at the Project site for at least one (1) year after the completion of the Project. The Bank's audit guidelines will

be used by the Borrower in determining the format and content of the annual financial statements and in preparing the audit TORs. Project audits will be financed by the Loan.

7. Financial management supervision during implementation: Given project scope and risk profile, supervision activities will include at least two visits per year in addition to review of FMRs, and annual review of the external audit.

8. Readiness for implementation: During Project preparation an Action Plan was discussed and agreed with COFOPRI, implementation of which was followed up in the period leading to appraisal and negotiations.

Table 1. Action Plan

Action	Status at Negotiations
Sistema Nacional de Inversión Pública (SNIP)	
Prepare calendar for project presentation and approval in SNIP	Completed
Organization and Implementation Arrangements	
Finalize project organization structure (including roles and responsibilities)	Completed
Finalize inter-institutional arrangements with SUNARP and prepare and submit draft Cooperation agreement between COFOPRI and SUNARP	Completed
Renew key staffing working in preparation of project	Completed
Internal Control	
Review and strengthening of the general filing system	Completed
Operational Manual	
Submit draft Operational Manual for Bank review	Completed
External Audit	
Submit draft TORs for Bank's review	Completed
Hire external auditors	Within 6 months of effectiveness
Financial Reporting	
Submit formats and content of core FMRs for Bank review	Completed
Revise formats and content of FMRs to include disbursements reports and cash forecast for Bank review	During Implementation , if and when the project decides to implement report based disbursements
Management Information System (Siam)	
Install new version of SIAF (including SIAF Project module)	Completed
Training of project staff in the new SIAF version	Completed
Finalize scheme for SIAF of FMRs reports	Completed
Implementation of adjustments in SIAF for producing FMRs which includes the disbursement information to support report-based disbursements	During Implementation

Disbursement Arrangements

During negotiations, it was determined that additional work was still needed by COFOPRI to transition into report-based disbursements which would require the completion of the preparatory work (see Action Plan above), including making adjustments to its information system and preparation of documentation (i.e. reports) which could support report-based disbursements. Thus, COFOPRI informed the Bank that it has chosen to begin with transaction-based disbursements. During implementation, in conjunction with the Bank's disbursement and financial management team, COFOPRI will evaluate its capacity and readiness to transition into report-based Disbursements.

Irrespective of the disbursement mechanism, and to facilitate Project implementation, COFOPRI will have access to funds advanced by the Bank to a Special Account in US dollars for processing disbursements for eligible expenditures under Project activities. The Special Account (SA) will be opened in *Banco de la Nación* (Government commercial bank) and will be managed by COFOPRI (including expenditures financed under components implemented by SUNARP). Funds deposited into the Special Account as advances (depending on the disbursement mechanism) will follow the Bank's disbursement operating policies and procedures established for each mechanism as described in the Loan Agreement and in the Disbursement Letter, as the case may be.

Transaction-based disbursements: In this case, an Authorized Allocation (AA) for advances made into the Special Account will be established. This AA would be set to a maximum of \$2,000,000 and COFOPRI could request such advance as needed once the Loan is declared effective.

Once the initial deposit has been provided, the PCU will submit subsequent withdrawal applications requests for replenishments to the Special Account on a monthly basis. All withdrawal applications will be fully supported by appropriate supporting documentation (i.e. invoices, receipts, or other evidence of payment) except for those expenditures for contracts not subject to prior review and for which the Bank has approved the use of Statement of Expenditures (SOEs), as referred to in the Loan Agreement and the Disbursement Letter. COFOPRI will be responsible for preparing and submitting withdrawal applications to the Bank. All supporting documentation of withdrawal applications (including those for which SOEs are used) should be retained by the PCU and be available for review by Bank supervision missions and independent auditors.

Withdrawal from the loan account could be made on the basis of SOEs for the following expenditures: (a) contracts for goods costing less than US\$250,000 equivalent, (b) contracts for consulting firms costing less than US\$200,000; (c) contracts for individual consultants costing less than US\$100,000, and (d) all , training and operating costs.

Report-based disbursements: In the case that withdrawals of loan proceeds are made using report-based Disbursements, the Bank will deposit into the Special Account an amount which the Bank has determined, based on FMRs submitted, that is required in order to finance eligible expenditures during the period (no more than 6 months) following the reporting period of such FMRs.

In addition to the core FMRs (previously mentioned) for the purposes of report-based disbursements, the following additional reports have been discussed, and format and content will be agreed upon before implementation of Report-based disbursements if COFOPRI requests to transition into this mechanism:

- Special Account Activity Statement
- Summary Statement of Special Account Expenditures (for those expenditures subject to prior review)
- Summary Statement of Special Account Expenditures (for those expenditures which are not subject to Bank prior review)
- Forecast of expenditures for next two reporting period (i.e. 6 months)

In the case report-based disbursements, COFOPRI should submit withdrawal applications as follows:

- (a) Initial Withdrawal Application: A request for withdrawal of loan funds using the appropriate form (1903) provided by the Bank, along with the Project's expenditures forecast for the next two reporting periods.
- (b) Subsequent Withdrawal Applications: A request for withdrawal of Loan proceeds using the appropriate form (1903) provided by the Bank, along with the FMRs for the period ended, the

Special Account Activity Statement (including Bank statement), and any other applicable Summary Statement of Special Account Expenditures, and forecast for next two reporting periods.

Under this mechanism, only the reports listed above are submitted to the Bank with the withdrawal applications. All documents supporting the reported expenditures should be maintained by COFOPRI and made available for review by Bank supervision missions and external auditors.

Other disbursement methods will be available for COFOPRI to withdraw the proceeds the Loan such as direct payments to consultants and service providers, and reimbursement to COFOPRI for pre-financing the Bank's share of Project expenditures. These have been discussed and agreed during negotiations and will be set out in the Disbursement Letter.

Table 2. Allocation of Loan Proceeds

Expenditure Category	Amount in US\$ (millions)	Financing Percentage
1. Goods	4.58	65%
2. Consultants' services (including audits)	14.05	65%
3. Training	3.65	65%
4. Operating Costs	2.65	65%
Interest during construction	0	
Front-end Fee	0.06	
Total	25	

Annex 8: Procurement Arrangements

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

A. General

Procurement for the proposed project would be carried out in accordance with the Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Loan Agreement. The general description of the procurement of various items under different expenditure categories are described below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time-frame will be agreed between COFOPRI-SUNARP and the Bank Project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual Project implementation needs and improvements in institutional capacity.

Procurement of Works. No major civil works will be financed during project implementation. Minor works to be procured under this Project will consist of the refurbishment of existent COFOPRI-SUNARP building infrastructure to improve the functionality of formalization, registry/cadastral layouts and to make operational the filing systems for document reception and handling at the central and local offices. However, as these civil works will be financed out of counterpart resources no procurement provisions have been included in the Loan Agreement.

Procurement of Goods. Goods and services (other than consultants' services) to be procured under this Project will include office equipment, furniture, and ICT equipment (computers, printers, servers, software). To the extent possible, procurement of goods will be grouped in packages with estimated values of US\$250,000 equivalent or more and contracted under International Competitive Bidding (ICB) procedures and Bank standard bidding documents. Contracts estimated to cost less than US\$250,000 equivalent but more than US\$50,000 equivalent per contract shall be procured under NCB and standard bidding documents agreed upon with the Bank. Contracts estimated to cost US\$50,000 equivalent or less per contract may be procured using National Shopping (NS) procedures based on the attainment of at least three quotations from qualified domestic suppliers and the use of a model request for quotations agreed upon with the Bank.

Procurement of non-consulting services. Under this category of contracts, software support and maintenance services; network manager support and maintenance; software antivirus, printing, internet service provision, and broadcasting services will be financed by the project. Non-consulting services will be procured following NCB procedures when contract values are above US\$50,000; for contracts equal to \$50,000 or less per contract the use of Shopping procedures through price comparison of at least three responsive quotations obtained from local qualified suppliers will be allowed. For each of those methods, the PCU will use standard bidding documents acceptable to the Bank.

Selection of Consultants. Consulting services for the employment of firms and individuals under this Project will be procured in the following areas of expertise: studies on planning, management, monitoring and evaluation, formalization and registry/cadastral administration and operation, selection and evaluation of staff, software development and training. These services would be procured using Bank's Standard Request for Proposals for selection of consulting firms, and standard documents agreed upon with the Bank for selection of individual consultants.

Firms. All contracts for hiring of consultant firms estimated at US\$100,000 equivalent or more will be procured using Quality and Cost Based Selection (QCBS); small and simple contracts estimated to cost

less than US\$100,000 equivalent may be procured with use of the QCBS, QBS, Consultant Qualifications (CQ), Fixed-Budget Selection (FBS), or Least Cost (LCS) methods.

Individuals. Specialized advisory services, such as legal, regulatory and institutional reform proposals; communication plans, policy advisory; specialized training to municipality staff; design of M&E systems; design of information, communications and dissemination campaigns; design and production of educational modules on urban property formalization; training in cadastral technologies to technical staff; design of training workshops to micro-enterprises and citizens on urban property formalization; diagnostics for the identification of financial institutions and existing market areas of intervention for property formalization and management model designs; baseline studies on municipal cadastres and impact evaluation; design of technical standards on cadastral and formalization processes; design of baseline surveys; and consulting services of a continuous nature to the PCU in project management, coordination, monitoring and evaluation, technical, and administrative support areas, inter alia, will be provided by individual consultants selected by comparison of qualifications of at least three candidates and hired in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Operating Costs and Training. Incremental operating costs will be those related to the PCU operation; training services will entail the conducting of seminars and workshops, including instructional materials, per diem and transportation. Whenever goods and services of a training and operational nature are available in sufficient number to allow for competition, they will be procured following national shopping (NS) procedures.

B. Summary of the assessment of the agency's capacity to implement procurement

Procurement activities will be carried out by COFOPRI. The PCU is staffed by 16 members and the procurement unit will be staffed by 2 procurement officers. PCU will gradually incorporate the following staff: 1 M&E Coordinator; 1 Social & Economic Analysis Specialist; 1 Treasury Officer; 1 Assets Management & Control Assistant; 1 Administrative Assistant. The Operational Manual will include, in addition to the project procurement and administrative procedures, the Bank Standard Bidding Documents for procurement of goods under ICB procedures and project standard documents for procurement of works and goods under NCB, and shopping procedures, acceptable to the Bank. Also, the Bank Standard Request for Proposals for selection of consultant firms under QCBS method as well as sample form of contract for employment of individual consultants will be included in the manual.

An assessment of COFOPRI's capacity to implement procurement actions for the project has been carried out by Keisgner D. Alfaro on 06/22/2005. The assessment reviewed the PCU's organizational structure for implementing the project and the interaction between the Project's staff responsible for procurement and other Project administrative areas supporting PCU along the project cycle.

Most of the issues/risks concerning the procurement component for implementation of the Project have been identified and include the lack of: i) an experienced procurement staff assigned to PCU and; ii) an integrated project information system required to enable timely project monitoring, control and reporting which may hinder efficient decision-making processes.

The corrective measures which have been agreed are: i) COFOPRI will hire an experienced procurement officer, not later than end of December 2005, to ensure adequate Project procurement coordination, supervision and technical assistance to COFOPRI's executing units and staff, and SUNARP; ii) the Bank will provide basic procurement training to project staff from both COFOPRI and SUNARP not later than project launching mission; and iii) COFOPRI will implement in full an integrated project management information system (PMIS) on the basis of country systems already developed by GoP which shall have the capacity to register all procurement and related financial management not later than six (6) months after the project has been declared effective.

The overall project risk for procurement is AVERAGE

C. Procurement Plan

PCU developed an 18-month procurement plan which provided the basis for contract grouping, Project costing and identification of procurement and selection methods to be used (per Table A8.1). The plan was reviewed and cleared by the RPM Office and it is available at COFOPRI's and the Bank's web pages.

During project implementation, the implementing agencies and the Bank team will meet periodically to review and assess progress achieved in executing the procurement plan. The Borrower shall update the procurement plan on an annual basis, or as needed, and always cover the next 18-month period of project implementation. The Bank will disclose the initial procurement plan and COFOPRI shall advertise subsequent updated versions in Development Business, newspapers and other available publishing sources. The PCU shall not take any procurement action before the Bank no objection is provided.

Table A.8.1: Thresholds for Procurement Methods and Prior Review*

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ thousands)
1. Goods and Non-Consulting Services	Contract = > 250	ICB	All
	250 > Contract > 50	NCB	First 2 contracts; and annual review of procurement plan
	Contract < = 50	National Shopping	First 2 contracts; and annual review of procurement plan.
			Post-review: Random sample of contracts
2. Consulting Services and Training			
2.1 Firms	Contract = > 100	QCBS	Contracts = > \$200, including TOR, RFP, shortlist of firms, full review of technical and final evaluation reports, and final negotiated contract.
	Contract < 100	QCBS, LCS, CQ, FBS or SSS	TOR and estimated value of contract; and annual review of selection plan. Post-review: Random sample of contracts
2.2 Individuals	Contract = > 100	IC	Contracts = > 100, including TOR, CVs, and Form of Contract
	Contract < 100	IC, and SSS	TOR and estimated value of contract; selection process as required by the Bank, and annual review of selection plan Post review: Random sample of contracts

*Thresholds generally differ by country and project. Consult Operational Directive (OD) 11.04, "Review of Procurement Documentation," and contact the Regional Procurement Adviser for guidance.

Total value of contracts subject to prior review: [\$ 5.7 mill]

D. Frequency of Procurement Supervision

Consistent with the findings of the agency capacity assessment, it is recommended that the Bank carry out procurement supervision once a year in order to ensure that Project implementation reflects satisfactory performance, especially during the first year; the supervision plan should also include a special mission for procurement supervision at any critical point of Project implementation. Before implementation gets started, the Bank will assist the PCU in the upstart activities by identifying and providing training opportunities to key staff in procurement under Bank guidelines and procedures.

E. Post Review Ratio

In addition to prior-review and supervision tasks to be carried out by field-assigned Bank staff, the capacity assessment of the PCU has recommended one supervision mission every twelve (12) months, including one post review mission of procurement actions a year. Based on the overall risk assessment, the post-review ratio should cover a field sample of no less than 1 in 10 signed contracts.

This ratio could be adjusted during Project implementation depending on the performance of the agency and the results of the reviews.

Attachment 1

Details of the Procurement Arrangement involving international competition.

1. Goods, Works and non-consulting services.

(a) List of contract Packages which will be procured following ICB and Direct Contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost (US\$)	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
LPI1	Hardware: Computer equipment & accessories	1,571,726	ICB		Yes	Prior	05/10/2006	
LPI2	GPS Equipment Acquisition (GPS: Work station, receptors, Antennas, central-level administration equipment, equipment and field stations installation, distance measurement equipment, prisms and supporting devices)	462,059	ICB		Yes	Prior	09/19/2006	
LPI3	SOFTWARE	1,005,571	ICB		Yes	Prior	09/19/2006	
LPI4	Satellite imagery	603,187	ICB		Yes	Prior	10/10/2006	
D1	Installation and setup of GPS measuring equipment. Specialized work that can only be done by IGN. Each network access point costs \$400 and includes: installation, setup, personal expense and measurement equipment use for 4,955 stations during 5 years.	990,000	DC		No	Prior	10/26/2006	

(b) ICB Contracts estimated to cost above \$250,000 for procurement of goods (and services other than consultant services) per contract and each contract awarded through Direct Contracting will be subject to prior review by the Bank.

2. Consulting Services.

(a) List of Consulting Assignments with short-list of international firms.

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
F1	Development of an urban property registry system	\$450,169.00	QCBS	Prior	07/24/2006	
F2	Training to managerial level staff	\$300,000	QCBS	Prior	07/24/2006	

F3	Web-based applications development for registry dissemination and advertisement (to be executed during the 2 nd and 3 rd year of project implementation)	\$315,000	QCBS	Prior	09/02/2007	
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(b) Consultancy services for employment of firms estimated to cost above \$200,000 per contract; \$100,000 per contract for employment of individual consultants; and contracts awarded with the use of Single Source Selection of consultants (firms or individuals) will be subject to prior review by the Bank.

(c) **Short lists composed entirely of national consultants:** Short lists of consultants for services estimated to cost less than \$350,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

SUMMARY

This annex presents the net economic benefits to be derived from the Project. The Project involves total costs of US\$41.7 million and generates a diverse set of benefits. However, in the economic analysis that follows, the calculation of the net present value of the Project only considers the direct costs and benefits:

- (a) the costs used in this analysis are those that bear directly on property formalization and on the functioning of the property registration system (Components 2 and 3). These are estimated at US\$35.2 million (84.5% of total Project costs). The items considered in the estimate of direct costs, and their respective weight, are the following: accessible quality registration services (31.2%), national integrated system of land cadastre information (11.4%) and, decentralized formalization and cadastre services (57.4%). The following cost items were not included: (i) integrated property right policies (US\$0.7 million); (ii) communications and public education (US\$2.8 million); (iii) market-relevant information (US\$0.9 million), and (iv) Project Management (US\$2.1 million); and
- (b) only direct economic benefits were considered. These are expected to arise from the increased value of immovable properties attributable to tenure formalization (US\$206.3 million). The Project also results in a series of indirect benefits; however, due to the fact that they are not easily quantifiable, they are described but not included in the calculation of the economic rate of return of the Project. These indirect benefits have been classified under the following categories: reduction in titling costs, fiscal impact and other indirect benefits.

Table 1 shows a summary of the benefits and costs (in net present value) related to the Project activities.

Table 1. Summary of Benefits and Costs

Flow	Net Present Value of Flows
Expected Project Benefits	US\$122.2 million
Expected Project Costs	US\$29.89 million
Net Benefits	US\$72.6 million
IRR	20%

This annex is organized in three sections. Section 1 presents the Project economic analysis including the calculation of net direct benefits, its economic rate of return and sensitivity analysis; Section 2 discusses the indirect benefits of the Project and Section 3 covers the financial impact of the Project on SUNARP.

1. Economic Analysis

The net present value of the Project (NPV) and its internal rate of return (IRR) are calculated on the basis of an estimate of the direct costs and benefits of the Project. The sensitivity analysis considered using alternative scenarios of reductions in economic benefits.

1.1. Direct Costs

The costs used in the economic analysis are those that bear directly on land formalization and on the functioning of the land registration system. In order to be able to compare the results with those from other countries, the analysis only considers costs that are directly associated with formalization. Total Project Costs amount to US\$41.9 million, but these include costs directly related to formalization, as well as other costs. The following direct costs are included: area-based systematic land formalization, titling, registration and cadastre activities, and development of the technological platforms associated to each activity. These direct Project costs, as estimated by COFOPRI, total US\$35.2 million, of which US\$11.0 million relate to accessible quality registration services, US\$20.2 million refer to decentralized formalization and cadastre, and the remaining US\$4.0 million are for the development of a national integrated system of land cadastre information. The details of these cost components are shown in Table 2. Treated as a flow over five years, these costs have a net present value (NPV) of US\$29.89 million.

Table 2. Direct Project Costs
(in US\$ dollars)

Items		Initial Investment	2005	2006	2007	2008	TOTAL
Component 2: Decentralized Formalization Component		7'449,151	5'046,998	4'252,651	2'275,989	1'203,710	20'228,499
2.1	National Formalization Strategy Subcomponent	7'369,151	4'966,998	4'207,651	2'230,989	1'158,710	19'933,499
2.2	Municipality Strengthening Programs Subcomponent	80,000	80,000	45,000	45,000	45,000	295,000
Component 3: Registry Services Provision		2'02,3189	3'656,140	4'142,805	3'696,139	1'480,936	14'999,209
3.1	Real Property Registry System Information	1'216,522	2'802,806	2'802,806	2'962,806	1'214,269	10'999,209
3.2	Real Property Demarcation Systems	806,667	853,334	1'339,999	733,333	266,667	4'000,000
Total		9'472,340	8'703,138	8'395,456	5'972,128	2'684,646	35'227,708

Source: COFOPRI

1.2. Direct Benefits

Direct economic benefits are expected from the increased value of immovable properties attributable to formalization of tenure. Increased property value due to formalization is a summary indicator of the capitalized value of three major types of benefits associated with formalization: improved investment incentives, marketability, and ability to use the land as collateral for loans. Estimating the magnitudes of these expected increases is a complex issue for a national program involving a heterogeneous set of properties. A wide range of factors influences property values — location, access to public services, size, value of construction, alternative use of the property— each of which interact with tenure status. Controlling for these factors, the difference in value between similar formalized and informal properties is a good indicator of the economic benefit of formalization.

The preferred methodology to estimate this difference in value would be to compare values based on data of actual transaction prices, controlling for variation of the characteristics of the negotiated properties. Nonetheless, this approach has some difficulties, including a selection bias because it

would only consider the properties that were actually transacted, and it is impossible to compile reliable and complete transaction data (many transactions still occur outside of the registry system).

An alternative way of measuring the impact of titling on property prices, employed in this analysis, is the methodology known as *hedonic prices*. This methodology was developed in the 1970s and is based on calculating the implicit prices of the attributes of a certain good that are revealed by the agents (in this case property owners in areas subject to formalization) from observed prices. Accordingly, the methodology assumes that goods are valued because of their attributes as stated by the beneficiaries²². Following this methodology, the price of a property is explained as a function of a set of features. One of these features is the availability of a valid and duly registered property title (such as the one issued by COFOPRI as part of the formalization process).

The estimates are based on a survey and a study commissioned by COFOPRI²³. The data, collected in June 2003, includes a set of owner-defined property values and features that can be used to measure the expected economic impact of titling. The survey was applied to 3,337 householders in Lima, Arequipa, Cusco, Trujillo and Huaraz.

Direct economic benefits are estimated in a two-step process. First, the number of properties to be titled by the Project is identified. Second, an estimate of the additional property value increment associated with formalization of tenure is generated, based on an empirical examination of formalized properties. This stream of direct benefits can then be discounted to calculate the net present value and an internal rate of return.

1.2.1. Number of Properties to be Titled

According to COFOPRI estimates, the Project will formalize an estimated 769,805 properties of which 513,911 will result in individual property titles. The annual projection of the number of properties to be titled under the Project is shown in Table 3.

Table 3. Annual projection of the number of properties to be titled

	2005	2006	2007	2008	2009	Total
Properties to be titled under the Project	100,000	100,000	100,000	100,000	113,911	513,911

Source: COFOPRI

These properties are classified as shown in Table 4 according to the legal status of their tenure prior to formalization. In other words, by the type of proof of ownership held by the possessor or owner. Because, as shown in the study commissioned by COFOPRI, beneficiaries do not distinguish between a valid and duly registered COFOPRI title and other proofs of ownership (a contract, a title provided by the Municipality or by the association of homeowners of a particular township). Thus, the proper application of the methodology assumes that the direct economic benefits of formalization only affect those properties that did not have any type of proof of ownership prior to the formalization by COFOPRI. During Project preparation it was assumed that the tenure

²² Rosen, Sherwin, "Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition" in *The Journal of Political Economy*, Vol. 82, No. 1, 1974, pp. 34-55.

²³ Apoyo Consultoría, "Estudio para el diseño de un sistema de información de precios del mercado inmobiliario urbano marginal e implementación del mismo", PDP / COFOPRI, Lima, 2003.

characteristics of the properties to be formalized under this Project follow the same pattern as the properties formalized under the UPRP.²⁴

Table 4. Number of properties to be titled classified by tenure status^{1/}

Tenure Status	Properties to be formalized	% of total
Without registered title or any other proof of ownership	223,037	43.4%
With titles or proofs of ownership granted by public entities other than COFOPRI	87,879	17.1%
With prior registered title and revised and validated by COFOPRI	200,425	39.0%
Others	2,570	0.5%
Total	513,911	100%

1/ Rounded estimate

Source: Apoyo Consultoría (2003)

As shown in Table 4, about 43.4% of the properties to be formalized under the Project are expected to have no title or proof of ownership. It is estimated that the remaining 56.6% will already have another title or proof of property prior to formalization. However, they are still considered in the Project because in some cases these titles are not registered, and in others further work is needed by COFOPRI to incorporate it into the geo-referenced cadastre.

1.2.2. Estimate of the Incremental Property Value due to Formalization

This section is based on the methodological approach of the 2003 study commissioned by COFOPRI and uses its results as well as data on property prices collected in a 2003 survey. Owner-defined prices of residential properties were included in the Project sample. The premium for land formalization can be deducted from a model of residential property prices that partially controls the factors that make property prices differ. In the model, the following categories of regressors are included:

- a Value of the parcel without construction or title
- b Value of the construction and finishings
- c Value of the location features
- d Value of the property title
- e Value of the alternative use of the property
- f Value of the family socio-economic characteristics
- g Location of the property

The value of the property title is the most relevant variable in this analysis because it allows measuring the additional predicted value of a COFOPRI title as opposed to other titles or proofs of ownership. Thus, it could be used as a proxy to determine the direct economic benefit of COFOPRI's formalization efforts. Several variables were available in the database to be used as proxies for other categories. On the basis of bi-variable regressions, it was possible to select the final independent variables of the model. Table 5 shows the variables used in the model and their main descriptive statistics.

²⁴ COFOPRI carried out pilot projects in three of the cities to be covered under the Project to confirm that the pattern observed in the first project is likely to remain unchanged.

Table 5. Descriptive Variables of the Model

Category	Proxy variables	Mean	Standard Deviation	N
1. Value of the parcel without construction or title	1.1. Implicit price with no construction or title	1,801.73	2,268	3,251
2. Value of the construction and finishing	2.1. Construction materials index	10.32	3.37	3,297
	2.2. Number of rooms	3.89	2.22	3,336
3. Value of the location features	3.1. Quality of pavement	3.02	1.08	3,336
4. Value of property title	4.1 Holding a property title	0.70	0.46	3,337
5. Value of the alternative use of the property	5.1. Garage availability	0.11	0.32	3,337
6. Value of the family socio economic characteristics	6.1. Socioeconomic level	1.20	0.82	3,228
7. Property location	7.1. Lima – North	0.16	0.36	3,337
	7.2. Lima – South	0.15	0.36	3,337
	7.3. Lima – East	0.15	0.36	3,337
	7.4. Arequipa	0.18	0.38	3,337
	7.5. Trujillo	0.18	0.39	3,337
	7.6. Cusco	0.09	0.29	3,337
	7.7. Huaraz	0.09	0.29	3,337

From the available data, a sub sample of 1,419 observations was considered in the final model since it was necessary to ignore missing values, rented properties and households that did not report tenure status and/or answers related to property price. More details on the variables used are presented in Appendix 1.

Table 6. Model Summary

R Squared	Adjusted R Squared	Std. Error of the Estimate	N
0.5451	Non available	Non available	1,419

a Predictors: (Constant) Implicit price of the property without title or construction, construction materials index, number of rooms, pavement quality, holding of property title, garage availability, family socio-economic level, location.

Estimate results are presented in Tables 6 and 7. The model presents a high R squared statistic (0.55). This result is unusually high considering typical results found in econometric models that employ, as in this case, cross-sectional data. Additionally, Table 6 shows that coefficients associated with the explanatory variables present the expected behavior and are highly relevant.

Table 7. Estimation results from the model ^{1/}

Model	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
Implicit price of the property with no title or construction	0.82	0.06	12.71	0.000
Construction materials index	-426.04	69.04	-6.17	0.000
Number of rooms	860.46	161.19	5.34	0.000
Pavement quality	-1,215.44	242.55	-5.01	0.000
Holding of property title	924.65	277.16	3.34	0.001
Garage availability	2,983.90	1,033.81	2.89	0.004
Family socioeconomic level	1,326.78	335.99	3.95	0.000
Lima – North	4,410.85	878.07	5.02	0.000
Lima – South	5,319.28	712.61	7.46	0.000
Lima – East	3,625.81	747.80	4.85	0.000
Arequipa	2,259.70	616.59	3.66	0.000
Trujillo	1,231.19	670.87	1.84	0.067
Cusco	4,065.89	857.57	4.74	0.000
(Constant)	4,571.13	1,301.79	3.51	0.000

1/ Dependent Variable: Owner-defined property price

This model provides an estimate of an additional value of US\$925 for property title. This represents an incremental value of 25% in terms of the average value of the properties without title considered in the regression sample (US\$3,680).

Further estimates were made in order to determine whether the possession of more than one type of title or proof of property has any additional effect on the incremental value previously calculated. Likewise, it was also tested whether the holding of a COFOPRI title offers a distinct marginal value with respect to other titles or proofs of ownership. In all cases, the proposed hypotheses were disproved. Thus, it appears that the formalized population cannot distinguish the benefits of a COFOPRI title from those of other titles or proofs of property.

According to the results of the econometric analysis, only the properties in which there was no other title or proof of ownership prior to formalization gain value immediately after being titled. The owner-defined property values of parcels which already had other title or proof of property, do not change the value perception. This does not imply that a COFOPRI title does not add value to a property, only that it is not perceived as such by the beneficiaries because they do not understand the difference between a valid and duly registered COFOPRI title and other proofs of ownership. With a stronger registry culture it is very likely that the model results would vary as the population would distinguish between different types of titles/proofs and grant a higher value to COFOPRI titles.

The following table shows the estimate of direct economic benefits using the number of urban properties with non-registered title to be formalized under the Project. In the analysis it is assumed

that the number of properties with non-registered title represents the same percentage of the total along the Project (43.4%).

Table 8. Calculation of direct economic benefit

Tenure Status	Estimated property value premium of registration	NO. OF PROPERTIES	Estimated Maximum Potential Benefit of Regularization
With non-registered title	925	223,037	206'309,225
With registered title granted by other entities	0	87,879	0
With title registered by householders	0	200,425	0
Others	0	2,570	0
Total		513,911	US\$206'309,225

1.3. Net Present Value of Benefits and Costs, and Sensitivity Analysis

The empirical analysis suggests that the gain in property value is produced immediately after formalization, but in reality the benefit to the economy from the investment accrues over time as the increased value of formalized properties is realized through sales turnover. Accordingly, benefits can be assumed to be realized over a 20 year time period. The total maximum potential increment in property values is US\$206,309,225. If we assume that three percent of properties are sold annually the resulting annual financial benefit is approximately US\$6.81 million. The projection assumes that the total benefit is distributed evenly over a 20-year period, beginning the second year of the project. Given the increment in property values after titling, the Project yields an estimated total economic benefit of approximately US\$122.6 million. Considering the costs indicated in the first section of this Annex, the total net economic benefit is US\$93.9. million (see Table 9 to review the distribution of the net benefits throughout the Project life). Using a discount rate of 12 percent, this yields a net present value of economic benefits of US\$72.6 million. It represents an internal rate of return (IRR) of 20 percent on the investment.

Table 9. Flow of Benefits and Costs
(in US\$ million)^{1/}

	Initial Investment	2005	2006	2007	2008	2009	2010-2025	Total
Benefits	0	0	6.8	6.8	6.8	6.8	102.2	122.6
Costs	-9.7	-8.7	-8.4	-6.0	-2.7	0	0	-35.2
Net Benefits	-9.7	-8.7	-1.6	0.8	4.1	6.8	102.2	93.9

1/ Totals may not be equal to the sum of yearly amounts because of rounding.

2. Indirect Economic Benefits

This section presents a description of a series of indirect economic benefits related to the Project: reduction in titling costs, fiscal impact and other indirect benefits (access to credit and use of real property as collateral, impact of improved registration culture, effects of formalization on the labor markets and increased work hours, impact on gender, and other social benefits). These indirect benefits are difficult to quantify and therefore have not been included in the stream of economic benefits of the Project.

2.1 Reduction in Titling Costs

The second main area of benefits expected from the Project is the reduction of transaction costs and the consequent savings from increased efficiency of titling. Because they are intangible, these benefits were not included in the benefit-cost analysis.

In “The Other Path”²⁵, the Institute for Liberty and Democracy (ILD) estimated in US\$2,156 the formalization costs in the mid-1980s. No further information on transaction costs without the Projects is available. The UPRP showed that it is possible to issue titles for less than traditional methods, resulting in average costs of US\$62 per property in urban areas²⁶. This estimate results from the total costs of the UPRP Project divided by the number of titles issued (in the period 1996 - 2003). This saving was possible due to the processes designed under the UPRP. Thus, formalization duration was reduced from 6 years and 11 months (which implied 207 steps at 52 governmental offices) to only 45 days, 30 steps and 4 organizations involved.²⁷

During the preparation of the UPRP, standards to measure the cost of issuing and recording property titles were adopted (US\$35 for COFOPRI²⁸ and US\$15 for RPU²⁹), based on the experience of the pilot project carried out in Lima between 1996-1997. Performance measurement has shown that costs generally increased as formalization entered more complex areas and the economies of scale of massive procedures were reduced. As indicated in the Implementation Completion Report of the UPRP, the titling costs increased from US\$43.3 in year 2000, to US\$49.8 in 2001, US\$55.4 in 2002 and US\$62.00 in 2003, while the registration costs initially dropped from US\$14.60 in 2000 to US\$5.6 in 2001, and then increased in 2002 to US\$7.1, and in 2003 to US\$32.7³⁰.

According to the costs estimated for this Project, average title cost would be US\$75.7 and this estimate can reasonably be used to calculate the reduction in formalization costs versus a scenario of formalization based on conventional methods. The result is presented in the following table, indicating a reduction in costs of US\$1,069.1 million versus a counter-factual scenario of formalization using traditional methods (this calculation considers that this Project will regularize approximately 513,911 properties, as indicated above). This cannot be regarded as a direct savings because absent the Project many of these properties would never be formalized at the cost of

²⁵ De Soto, Hernando, “El otro sendero”. Editorial El Barranco, Lima, 1986.

²⁶ Morris, Felipe, et al., “La Formalización de la Propiedad en el Perú: Develando el Misterio”, COFOPRI / World Bank, Lima, 2004.

²⁷ Apoyo Consultoría (2002) “Estudio de estrategia de largo plazo de COFOPRI”, PDPU / COFOPRI, Lima.

²⁸ These included COFOPRI costs directly related to formalization, like public servant salaries, individual contractors’ fees, outsourcing costs and operational costs of mapping, office establishment and other direct operational costs; and exclude capital costs such as office refurbishment, furniture, equipment and information technology.

²⁹ RPU costs included public servant salaries, individual contractors’ fees, outsourcing costs and operational costs of mapping, office establishment and other direct operational costs; and excluded capital costs such as office refurbishment, furniture, equipment and information technology.

³⁰ Titling cost increases under the UPRP had several explanations: (i) initial cost estimates were based on the experience of one city (Lima) which accounted for more than 40% of the real estate properties to be formalized and that prioritized huge areas with high lot concentration and relatively low complexity; (ii) extension of the project area to six new urban centers did not allow to continue massive processes; (iii) more complex areas needed longer and more expensive processes; and (iv) decentralized operations involved higher costs. The evolution of registration costs suggests that during the first years of the UPRP a special effort was made to transfer and close the entries contained in RPI, and building a geo-referenced base, while during 2001 to 2002 RPU was focused in the review and recording of property titles submitted by COFOPRI. The increase in 2003 could be explained as a result of the merger of RPU and RPI.

conventional methods. Therefore the benefit has to be viewed as additional saving to the Project beneficiaries arising from more efficient formalization processes. Since no recent information on the formalization costs without the Project is available (i.e. the US\$2,156 figure obtained from the De Soto study is of 1986) it was decided not to include these benefits in the calculation of the direct impact of the Project.

Table 10
Cost savings from formalization of properties under Project

Number of properties	Cost savings per unit versus conventional methods (US\$)	Total cost savings (US\$ million)
513,911	2,080.30	1,069.09

2.2. Fiscal Impact of the Project

Municipalities are expected to obtain incremental revenues due to the increase in the number of formalized properties in each municipal jurisdiction subject to municipal fees and taxes. The magnitude of these revenues will vary among municipalities. These revenue streams will also be monitored as part of the Project to understand their financial impact and the differences among municipalities.

Revenue increases perceived by local governments will be collected from two sources: transfer tax and property tax. In the first case, not enough data is available to make appropriate calculations. With respect to property tax, Table 11 shows the relevant tax rates. Payment frequency is annual.

Table 11. Property Tax Rates^{1/}

	Tax Rate
Property value > 15 Tax Unit	0.60%
Property value < 15 Tax Unit	0.20%

1/ Tax Unit is equivalent to S/. 3,200 or US\$ 915 approximately

Table 12 shows the distribution and average property values of the properties formalized by COFOPRI under the UPRP, according to the database developed under the 2003 study.

Table 12. Classification of properties of the database with COFOPRI's title (in US\$ dollars)

	Percentage	Average Property Value
Property value > 15 Tax Unit	13.80%	25,416
Property value < 15 Tax Unit	86.20%	3,112

The information on Table 13 was extrapolated to the Project, obtaining an estimate of the distribution of the properties to be formalized disaggregated by property value using criteria related to the differential property tax rate.

**Table 13. Properties to be titled under the Project
(number of properties)**

	2005	2006	2007	2008	2009
Properties to be titled under the Project (Flow)	100,000	100,000	100,000	100,000	113,911
Properties to be titled under the Project (Stock)	100,000	200,000	300,000	400,000	513,911
Property value > 15 Tax Unit	13,813	27,626	41,440	55,253	70,988
Property value < 15 Tax Unit	86,187	172,374	258,560	344,747	442,923

Based on these numbers, Table 14 estimated the revenues under the Project attributable to the property tax. An evasion rate equal to 50% has been assumed. It is estimated that the Project would generate incremental revenues of about US\$18 million between 2005 and 2009 to the municipalities. From 2010 onwards, the municipalities would generate additional revenues of US\$6.8 million per year due to the Project. These estimated benefits have not been included in the stream of Project benefits.

**Table 14. Revenues associated to property tax
(in US\$ million)**

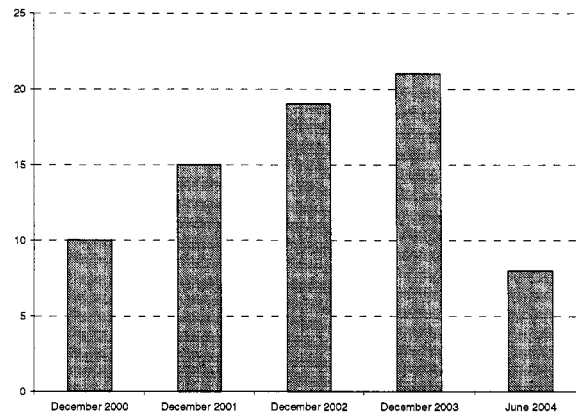
	2005	2006	2007	2008	2009
Property value > 15 Tax Unit	1.05	2.11	3.16	4.21	5.41
Property value < 15 Tax Unit	0.27	0.54	0.80	1.07	1.38
Total	1.32	2.64	3.96	5.28	6.79

2.3. Other Indirect Benefits

Access to credit and use of real estate property as collateral

The Project is also expected to strengthen the positive impact of registration on the beneficiaries' access to credit and use of real estate property as collateral. The experience of the UPRP in this respect has been very positive. In the case of mortgages in formalized areas, Graph 1 shows that there is a steady and significant increase in the number of mortgages registered in RPU/SUNARP. The number of mortgages registered increased 106% between 2000 and 2003, with yearly increases of 10%, 45% and 28% respectively. In the first half of 2004 almost 8,000 new mortgages were registered.

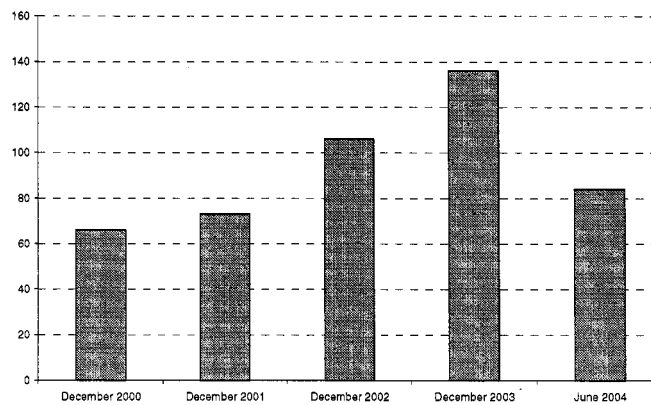
**Graph 1. Annual mortgages in formalized areas
registered in RPU/SUNARP
(in thousands)**



Source: SUNARP

Mortgage values in formalized areas have also increased in the past few years as shown in Graph 2. Mortgage volumes in dollar terms increased from US\$66 million in 2000 to US\$136 million in 2003. During the first half of 2004 about US\$85 million dollars in new mortgages in formalized areas were registered in SUNARP. This information on number of mortgages and mortgage volumes in formalized areas registered in the public registry is clearly a benefit that can be associated to the formalization effort. Had these properties not been formalized it would have been impossible to mortgage them.

**Graph 2. Mortgage Values in formalized areas registered in RPU/SUNARP
(in US\$ million)**



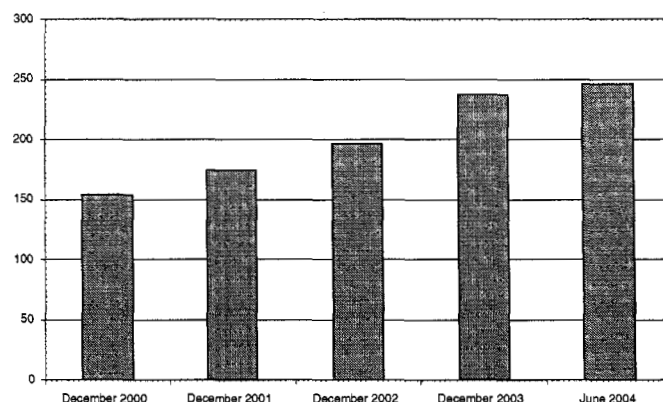
Source: SUNARP

In addition to mortgage numbers and volumes in dollar terms, the Project is also expected to increase the access of credit in general to the formalized population. Comparable information showing trends in this respect under the UPRP is shown in Graphs 3 and 4. Before 1999-2000 no information was available about the number and amount of credits granted to the recently formalized population because the *Central de Información Positiva* (CIP) became operational only in 2000. CIP is a database system that provides financial institutions and the market at large information regarding the creditworthiness potential of the formalized sector. CIP shows that from a universe of 1,421,113 titleholders identified, 522,646 receive a formal income. Thus, there are a

significant number of prospective clients that makes attractive the low-income segment to the financial system.

While it is not possible to prove causality between the UPRP and these increases in number of loans and loan amounts to formalized owners, the data shows a steady increase, explained at least partially by the formalization effort. It is expected that a similar positive trend will result from the Project. The Project will also include a study of the impact of credit on the formalized population to try to determine causality and other effects more precisely.

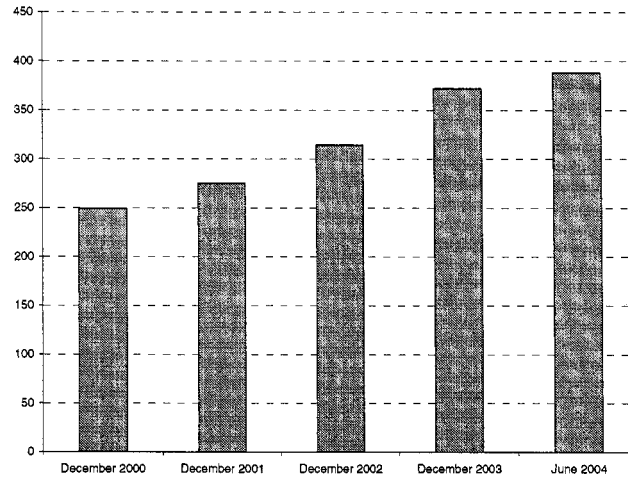
**Graph 3. Number of credits granted to formalized beneficiaries
(in thousands)**



Source: COFOPRI / SBS

Graph 3 shows the evolution in the number of credits to formalized beneficiaries between December 2000 and June 2004. Figures refer to beneficiaries with loans outstanding as of each date not new borrowings during the same period (they are stock rather than flow figures as opposed to the data in Graphs 1 and 2 that referred to information on flows of mortgages). As of June 2004 almost 250,000 formalized beneficiaries had credit from the financial system, compared to 150,000 in December 2000. It is worth indicating that there is no breakdown available of the loans by type (working capital, housing loans, project financing, and consumer credit) that would give as a better indication of the extent to which this increased access to credit is linked to economic activity in the formalized areas or increased consumption.

**Graph 4. Total loans to COFOPRI beneficiaries
(in US\$ million)**



Source: COFOPRI / SBS

The volume of loans to formalized beneficiaries has also shown a significant increase between December 2000 and June 2004, growing from US\$ 250 million to US\$388 million. Since it is not possible to quantify precisely to what extent the Project would improve access to credit and the resulting economic value, reference is made only to indirect benefits arising from the Project but they are not included in the calculation of the economic analysis of the Project.

Impact of implementing a registration culture promotion project

Several studies conducted under the UPRP (including the 2003 study mentioned earlier) have concluded that there is a lack of registration culture in Peru. Eventually, if this situation were reverted, the positive impact of the Project would be even greater as was previously discussed. Thus, in the extreme, the economic benefit calculation should consider not only the number of properties with no other title or proof of property prior to COFOPRI, but also those with other forms of proof of ownership and with other titles that require some additional work from COFOPRI.

Increase in the number of hours available to work

An additional indirect benefit of the Project is the increase in the number of work hours available as a result of the Project, evidenced under the UPRP. Although this was not originally included among the benefits expected from the UPRP, an independent survey on the impact of titling labor supply³¹ found that: (i) formalization, contrary to other State assistance programs, allows an easier access of the beneficiary population to the formal labor market; (ii) UPRP reduced the need to generate income at home because it allowed the beneficiaries to look for a formal job or one with a higher productivity out of home (because people do not have to stay at home to protect their property); and (iii) formalization is associated with a 17% increase in the labor hours of beneficiary families and with a 47% decrease in the probability of working at home.

Other Social Benefits

³¹ Field, Erica, "Entitled to Work: Urban Property Rights and Labor Supply in Peru", Industrial Relations Section/Firestone Library, Princeton University, 2002.

Another positive effect is the incidence of titling in reducing child work demand³². Also, from the total beneficiaries of the formalization program (whether individual titleholders or co-owners) women represent slightly more than 50%. Nevertheless, when focusing on individual owners, more than 66% are women.³³

3. Financial Impact on SUNARP

This section attempts to estimate the financial impact of the Project on SUNARP. Property formalization has a significant potential impact on the finances of SUNARP because it affects both its streams of future costs and revenues. The idea is to quantify the incremental costs to SUNARP related to the registration of formalized property and related subsequent transactions as well as the incremental revenues to the institutions due to registration fees in order to determine whether the formalization Project has a positive or negative financial impact on SUNARP. It is clear that as a result of the Project more transactions will be registered in SUNARP than without the Project, thus overall revenues will increase. Not as clear is the net impact of the Project on SUNARP's finances. This depends on whether incremental revenues are higher or lower than incremental costs. SUNARP is estimating the specific costs of the various types of transactions to determine whether fee income will be sufficient to cover them. The expectation is that the Project should result in a net financial benefit to SUNARP.

As Table 15 shows, SUNARP-RPU currently generates a considerable income from fees collected. Nonetheless at this point the operating costs of SUNARP for processing each type of transaction are not available, thus they are not included in the analysis.

Table 15. Estimated Incremental Revenues and Operating Costs of SUNARP as a result of the Project

Income (Registration Fees)	US\$1,984,228
Operating Costs	Non available

The ongoing analysis would allow a clearer understanding of the gap, if any, between revenues and costs related to transactions on properties formalized by COFOPRI to determine the need for cross-subsidies from other clients and for specific measures to improve the productivity and efficiency of the institution to reduce its operating costs. It would also provide input to the discussion on whether it would make sense to implement small adjustments in registration fees to the formalized population to try to cover the incremental costs of registering various transactions in SUNARP. This adjustment would only make sense if it is not significant enough as to avoid discouraging the formalized population from registering follow-up transactions.

Preliminary information would indicate that the costs to SUNARP to register typical transactions (such as mortgages, sales, and subdivisions) are higher than the fees charged to its low-income

³² The National Formalization Program was associated with a 28% reduction in the likelihood of child work (since children were allowed by their parents to study more time once security of tenure was assured). See Field, op.cit.

³³ Although the granting of property titles has not generated major changes in the domestic dynamics regarding responsibility for children and housekeeping, women perceive that the formal recognition of their right to a property has forced their husbands to take them into account in property transactions. INFORMET, "Estudio sobre los efectos de la titulación en el desarrollo de la mujer" (Research study of the effects of titling on gender development), PDP/COFOPRI, 2002.

clients. If the incremental revenues from higher volume of transactions exceed the incremental costs, this would strengthen the financial position of SUNARP and enable it to provide further improvements in services.

Table 16 shows an estimate of the revenues to be generated under the Project. This calculation was made based on the average percentages of the number of subsequent transactions and of mortgages, in both cases with respect to the stock number of registered properties, which were roughly 15.43% and 2.23% respectively, in the period included between 1999 and 2004; and assuming an average fee of US\$10 per transaction. SUNARP is reviewing the data to determine average fees by type of transaction. This information will allow the estimate of the net financial impact of the Project on SUNARP.

Table 16
Income of SUNARP-RPU under the Project

	2005	2006	2007	2008	2009
Properties to be titled under the Project (Flow)	100,000	100,000	100,000	100,000	113,911
Properties to be titled under the Project (Stock)	100,000	200,000	300,000	400,000	513,911
Subsequent transactions	15,426	30,852	46,278	61,704	79,276
Mortgages	2,266	4,532	6,798	9,064	11,645
Subsequent transactions and mortgages	17,692	35,384	53,076	70,768	90,921
Income	176,920	353,840	530,760	707,680	909,211

Appendix 1

Variables included in the econometric model

1. Implicit price of the property without title nor construction

Theoretical price of the parcel, calculated using as a reference the median of the implicit value of a squared meter in the property's district as reported by polled district residents.

2. Construction materials index

Considers three different criteria: floor, walls and roof materials used in the construction of the property. The index takes values between 3 and 25, where lower numbers indicate a worse quality of the materials.

3. Number of rooms

4. Pavement quality

Values of this variable fluctuate between 1 and 4, where proximity to the unit reflects a better quality.

5. Holding of property title (dummy variable)

Dummy variable which activates (i.e., takes the value of 1) if the householder possesses a property title. In the baseline model (Table 7), holding any property title –not only COFOPRI's– is included because, as explained in the Annex, further analyses concluded that for the owner/occupant it does not make any difference to have one or more titles, or to have the title given by COFOPRI.

6. Garage availability (dummy variable)

7. Socioeconomic level

It takes values between 0 and 4, where lower numbers indicate an inferior socioeconomic level.

8. Location (dummy variable)

One of them had to be left out of the estimate to avoid a problem of perfect co-linearity with the model constant ("Huaraz" was excluded).

- a. Lima – North
- b. Lima – South
- c. Lima – East
- d. Arequipa
- e. Trujillo
- f. Cusco
- g. Huaraz

Annex 10: Safeguard Policy Issues

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

This Project is a follow-up of the Urban Property Rights Project (Loan No. SCL-43840 – UPRP). Section E.6 of the Staff Appraisal Report (SAR) for the UPRP mentioned that the project did not deal with environmental issues as described and identified by Bank's policy, and explained that no involuntary resettlement would take place. Section 4 of the ICR for the UPRP explained that in the case of possible risk areas or archeological sites, COFOPRI worked with the agencies in charge (National Culture Institute [INC] and National Civil Defense Institute [INDECI]) to ascertain whether formalization could move forward. In these specific cases, the decision to clear the sites for formalization was taken by INC or INDECI, as appropriate. Experience with safeguards policies under the UPRP was therefore satisfactory; the Operational Manual proved adequate to prevent any potential environmental or resettlement impact.

As in the case of the UPRP, the proposed Project will not deal with any environmental issue. Property targeted for formalization will only be small lots in State-owned land that was invaded before December 31, 2001, in urban and peri-urban areas (Property Formalization Law - Law No. 28391- Art. 1). The Project will not include the titling of environmentally significant lands (i.e., lands for productive use or in rural areas) that are governed by separate legislation and titled under the Inter-American Development Bank (IADB) -financed Special Program for Rural Land Titling (PETT).

Following the UPRP precedent, the design of the decentralized formalization component will incorporate appropriate guidelines to prevent formalization from happening in risk areas (as mandated by Art. 21 and 22 of Supreme Decree No. 009-99-MTC and Art.18, Supreme Decree No. 013-99-MTC) or in or near archeological sites (as required by Art. 2.2.2 of Law No. 28391, Art. 1 of Supreme Decree No. 017-98-PCM and Art. 3 of Supreme Decree No. 046-98-PCM). Furthermore, the law specifically excludes from formalization land that constitutes a natural habitat (Law No. 28391, Art. 2.2) The Project Operational Manual will include sections to screen the above excluded areas out from titling under the project at the earliest stage of Project area surveying; no major change is anticipated to the provisions of that Manual for the UPRP, that were satisfactorily applied.

However, the Project is expected to generate favorable impacts from an environmental standpoint under Components 3 and 4 because it will support activities that may induce positive behavioral changes among urban dwellers that may have positive environmental impact while no negative impacts are envisaged (for instance, provision of reliable information on risk areas and cultural property issues).

The Project will not trigger OP 4.10 as COFOPRI'S legal framework (Law No. 28391) only allows formalization of individual informal possessions on State-owned land pursuant to Article 4 of Law No. 26845; demarcation and titling ancestral indigenous lands or natural habitats is not envisaged under this Project but under the GEF-financed Indigenous Management of Protected Areas in the Peruvian Amazon Project. Furthermore, OP 4.10 does not apply because project beneficiaries have lost collective attachment to their original distinct habitats and ancestral territories and moved into urban and peri-urban areas. However, the Operational Manual will include provisions to ensure informed consultation and participation of beneficiaries of indigenous descent in their own language during the whole formalization process. Furthermore, formalization and titling of community and indigenous lands is the mandate of PETT and falls outside the jurisdiction of COFOPRI.

The Project will not trigger OP/BP 4.12 or OPN 11.03 as no involuntary resettlement or impacts on cultural property will result from Project activities. Involuntary resettlement will not occur because the Project will only formalize State-owned land as provided by Law No. 28391 (Art. 2.1); the same law mandates that no privately held or disputed property can be formalized (Law No. 28391, Art. 10). The Project is designed to ensure that squatters remain in the lands they already occupy and mobilize that “dead capital” through market transactions (credit, sales, and mortgages). Therefore, no physical displacement will be encouraged or supported under the Project.

However, because State-owned lands in the Project area may contain culturally valuable resources (in particular around the city of Cusco) in order to prevent the titling of lands supporting these materials, the Operational Manual will provide that any historic or archeological site within the Project area be surveyed, and their administration and conservation will be placed under INC jurisdiction as provided by Law No. 28391. To ensure that Project activities do not result in unintentional titling of areas of cultural value, as in the case of the UPRP, information on any such lands will be forwarded to INC, and titling will only be allowed following an official authorization by INC.

Finally, due diligence procedures for addressing social issues in the Project area will be included in the revised Operational Manual.

In summary, the Project will not trigger any safeguard policy. Potential favorable impact on urban dwellers of indigenous ascent will be properly addressed by the Project’s communications strategies (see Annex 17) that will ensure dissemination of relevant information in indigenous languages.

Annex 11: Project Preparation and Supervision
PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

	Planned	Actual
PAD review	June 15, 2005	September 22, 2005
Initial PID to PIC	June 30, 2005	September 22, 2005
Initial ISDS to PIC	June 30, 2005	September 30, 2005
Appraisal	October 15, 2005	November 15, 2005
Negotiations	October 30, 2005	January 30, 2006
Board/RVP approval	January 30, 2005	March 16, 2006
Planned date of effectiveness	March 31, 2006	
Planned date of mid-term review	December 15, 2008	
Planned closing date	December 31, 2011	

Key institutions responsible for preparation of the Project: COFOPRI and SUNARP

Bank staff and consultants who worked on the Project included:

Name	Title	Unit
David F. Varela	Task Manager	LCCVE
Jorge Luis Archimbaud	Co-Task Manager	LCCPE
Kathrin Plangemann	Senior Public Sector Specialist	LCSPS
Malcolm Childress	Senior Land Administration Specialist	ESSD
Cora Shaw	Senior Cofinancing Officer	TFS
Andrea Silverman	Senior Institutional Development Specialist	ESSD
Edgardo Mosqueira	Peer Reviewer	LCSPS
Frederic de Dine chin	Peer Reviewer	LCSE
John Bruce	Lead Counsel	LEGEN
Juan Carlos Álvarez	Counsel	LEGLA
Isabella Micali Drossos	Senior Counsel	LEGLA
Mariana Montiel	Senior Counsel	LEGLA
Fabiola Altimari	Counsel	LEGLA
Alonso Zarzar	Senior Social Scientist	LCSEO
Alvaro Larrea	Procurement Specialist	LCOSU
Keisgner Alfaro	Senior Procurement Specialist	LCOPR
Patricia McKenzie	Financial Management Specialist	LCOSU
Xiomara Morel	Disbursements Officer	LOA3G
Felipe Morris	Financial Specialist	Consultant
Victor Endo	Legal Specialist	Consultant
Guillermo García Montúfar	Legal Specialist	Consultant
Maria Elena Ruiz	Social Specialist	Consultant
Veena Mayani	Social Specialist	Consultant
Javier Madalengoitia	Operations Specialist	Consultant
Juan Pablo Molina	Operations Specialist	Consultant
Ricardo Mago	Project Assistant	Consultant

Bank funds expended to date on Project preparation:

• Bank resources:	US\$ 300,000
• Trust funds:	-----
• Total:	US\$ 300,000

Estimated Approval and Supervision costs:

- Remaining costs to approval: US\$ 50,000
- Estimated annual supervision cost: US\$ 10,000

Annex 12: Documents in the Project File

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

A. UPRP-related Studies

1. *“Estudio de la oferta y demanda del crédito informal”* (Study on the Demand and Supply of Informal Credit), Grade, Lima, 1999.
2. *“Estrategia para la Sostenibilidad de Largo Plazo del Sistema de Registro Predial Urbano”* (Strategy for a long-term sustainability of the Urban Property Registry System), Arthur Andersen, Lima, November 2000.
3. *“Encuesta de Línea de Base”* (Baseline Survey), Instituto Cuánto, Lima, 2000.
4. *“Encuesta de Línea de Base: Reporte Final”* (Final report: Baseline survey), Apoyo Consultoría, Lima, November 2000.
5. *“Diseño del Programa de Difusión y Estrategia de Comunicación de COFOPRI y RPU”* (Design of the Information Dissemination Program and Communication Strategy for COFOPRI and RPU), Apoyo Comunicaciones, 2000.
6. *“Promoción del Crédito y las Inversiones: Informe Final”* (Final report: Credit and investment promotion), Group for Home & Infrastructure Finance, Lima, June 2001.
7. *“Estudio Cualitativo del Mercado Inmobiliario Urbano Marginal”* (Qualitative study of the peri-urban real estate market), Instituto Cuanto, Lima, August 2001.
8. *“Estudio de Cultura Registral”* (Study on registry culture), DESCO, Lima, December 2001.
9. *“Estrategia de Largo Plazo de COFOPRI”* (COFOPRI’s Long-term Strategy), Apoyo Consultoría, Lima, March 2002.
10. *“Estudio Ad Hoc sobre Efectos de la Titulación en el Desarrollo de la Mujer”* (Ad-hoc study on the Effects of Titling on the Development of Women), Consorcio INFORMET-INPET, Lima, April 2002.
11. *“Estudio sobre la Dinámica de los Asentamientos Humanos”* (Study on the dynamics of Human Settlements), SASE, Lima, July 2002.
12. *“Evaluación Integral para la Campaña Educativa Comunicacional de Servicios de la Cultura Registral Predial; Informe Integral”* (Evaluation of the Registry Culture Campaign), ICOM, Lima, 2002.
13. *“Entitled to work: Urban Property Rights and Labor Supply in Perú”*, Erica Fields, Industrial Relations Section, Princeton University, October 2002.
14. *“Formalización de la Propiedad Urbana en el Perú: Cuatro Historias de Éxito”* (Urban Property Formalization in Peru: Four Success Stories), Ursula Paredes and others, Lima, COFOPRI, 2002.

15. “*Estudio para el análisis de Cartera de Crédito dirigido al segmento de la población de menos ingresos de las zonas urbano marginales*” (Study for the análisis of the loan portfolio aimed at low-income population of marginal urban areas), Alejandro Velasco, Lima, January 2003.
16. “*Estimación del efecto de la titulación de Cofopri sobre la inversión e infraestructura y el nivel de consolidación en áreas urbano-marginales*” (Assessment of the effects of COFOPRI titling process on investments and infrastructure, and the consolidation level in marginal urban areas), Roddy Rivas Llosa, Lima, April 2004.
17. “*Peru–Urban Property Rights Project*”, Case study presented at Shanghai Conference, Fernando Cantuarias and Miguel Delgado, May 2004.
18. “*Análisis y determinación de la estructura de costos de COFOPRI*” (Analysis and definition of the costs structure of COFOPRI), Universidad del Pacífico, June 2004.
19. “*La Formalización en el Perú: Develando el Misterio*” (Formalization in Peru: Unveiling the Mystery), Felipe Morris, Victor Endo and Rafael Ugaz, Lima, June 2004.
20. “*Segunda Encuesta de Hogares para la Medición del Impacto del Proyecto de Propiedad Urbana en el Bienestar de la Población*” (Final Report: Comparative Baseline Survey), Consorcio ESAN-IMASEN, Lima, October 2004.
21. “*Estudio para el diseño de un sistema de información de precios del mercado inmobiliario urbano marginal e implementación del mismo*” (Study for the design and implementation of an urban-marginal real estate price market information system), Apoyo Consultoría, Lima, September 2003.

B. Project Preparation Documents

22. BTOR’s
23. Aide-Memoirs
24. PIP
25. Procurement Plan
26. Draft Operational Manual
27. “*Política de Estado sobre la Seguridad Jurídica de los Derechos de Propiedad en Perú. Resultados del Taller. Lima, Marzo 4 y 5 del 2004*” (Public policy on legal security of property rights in Perú, summary of workshop results, Lima, March 4 and 5 2004), Foros Técnicos Ltda, March 2004.
28. “*Strategy Paper on Increasing the Security of Property Rights in the Republic of Peru*”, Terradigm, June 2004.
29. “*Consolidación de los Derechos de Propiedad en Perú. Resultados del Taller. Lima, Dic. 9 del 2004*” (Real Property Rights Consolidation, summary of workshop results, Lima, Dec. 9, 2004), Foros Técnicos Ltda, December 2004.

Annex 13: Statement of Loans and Credits

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

As of 02/06/06

Closed Projects 91

IBRD/IDA *	
Total Disbursed (Active)	179.19
of which has been repaid	26.61
Total Disbursed (Closed)	4,949.60
of which has been repaid	2,565.94
Total Disbursed (Active + Closed)	5,128.79
of which has been repaid	2,592.54
Total Undisbursed (Active)	287.09
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	287.09

Active Projects

Active Projects	Project ID	Project Name	Supervision Rating		Fiscal Year	IBRD	Original Amount in US\$ Millions			Cancel.	Undisb.	Difference Between Expected and Actual Disbursements ^{a/}	
			Development Objectives	Implementation Progress			IDA	GRANT	Orig.			Frm Rev'd	
	P065200	GEF PE Indigenous Manag S	S	S	2001			10		2.437373	1.1603165		
	P068250	GEF PE PARTICIPATORY S	S	S	2003			14.8		9.05809	3.3380902		
	P035740	PE LIMA TRANSPORT PF S	S	S	2004	45				43.19206	20.662064		
	P082588	PE (APL2)Agric Research a S	S	S	2005	25				24.155	0.355		
	P080037	PE IRRIGATION SUBSECT S	S	S	1997	95.26				8.321792	-1.447469	0.223909	
	P088809	PE Inst. Capacity for Decen MS	MS	MS	2005	8.8				8.138213	3.0876959		
	P073438	PE Justice Services Improv S	S	S	2004	12				11.66	10.16		
	P074021	PE LIMA TRANSPORT PR S	S	S	2004	20				6.442414	6.7424137		
	P081834	PE Lima Water Rehab Add MS	MS	MS	2003	50		7.93		18.04563	14.158962		
	P065256	PE NATIONAL RURAL WAMU	U	U	2003	50				44.03209	28.365422		
	P078813	PE Regional Transport Dec #	#	#	2006	50				50			
	P044601	PE SECOND RURAL ROA S	S	S	2001	50				11.43865	11.438648		
	P077788	PE Trade Facit. and Prod. I S	S	S	2003	20				17.62965	15.29632		
	P082625	PE Vilcanota Valley Rehab S	S	S	2005	4.98				4.8051	0.4584333		
	P055232	PE- Rural Education MS	MU	MU	2003	52.5				39.85661	6.1566085	-0.04339	
	P078953	PE-(CRL1)ACCOUNT. F/D S	MS	MS	2005	7.8				5.767254	1.0672539		
	P062932	PE-HEALTH REFORM PR S	S	S	2000	27				0.043362	53.043362	0.043362	
Overall Result						468.34		32.73		0.49073848	305.0233	174.04312	
												0.22388	

PERU
STATEMENT OF IFC's
Held and Disbursed Portfolio
As of 12/31/2005
(In US Dollars Millions)

FY Approval Company	Held				Disbursed			
	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1999 Alicorp	0	0	20	0	0	0	20	0
2005 Corp. Drokasa	6.96	0	0	0	6.96	0	0	0
2004 EDYFICAR	2.3	0	1	0	2.3	0	0	0
2002 FTSA	6.43	0	1.5	0	6.43	0	1.5	0
2002 Gloria	25	0	0	0	19	0	0	0
2002 ISA Peru, SA	15.72	0	0	5.98	15.72	0	0	5.98
2003 ISA Peru, SA	0.2	0	0	0	0.12	0	0	0
2001 Inka Terra	5	0	0	0	5	0	0	0
2004 Interbank-Peru	40	0	0	0	0	0	0	0
2002 Interseguro	0	4	0	0	0	4	0	0
2003 Interseguro	0	0.59	0	0	0	0.59	0	0
2005 Interseguro	0	0.6	0	0	0	0	0	0
2000 Laredo	5	0	5	0	5	0	5	0
2004 Laredo	0.3	0	0	0	0.08	0	0	0
1998 Latino Leasing	1.78	0	0	0	1.78	0	0	0
2002 MIBANCO	0.67	0	0	0	0.67	0	0	0
1999 Milkito	5.5	0	3.5	0	3.5	0	3.5	0
2005 Miraflores	10	0	0	0	10	0	0	0
2003 Norvial S.A.	18	0	0	0	5.9	0	0	0
1998 Paramonga	11.5	0	0	9.71	11.5	0	0	9.71
2001 Peru OEH	5.7	0	3.4	0	1.7	0	3.4	0
1994 Peru Prvtzn Fund	0	3.81	0	0	0	3.81	0	0
1993 Quellaveco	0	4.67	0	0	0	4.67	0	0
1996 Quellaveco	0	3.98	0	0	0	3.98	0	0
2000 Quellaveco	0	0.45	0	0	0	0.45	0	0
2001 Quellaveco	0	0.57	0	0	0	0.54	0	0
1999 RANSA	5	0	0	0	5	0	0	0
2005 RANSA	10	0	0	0	10	0	0	0
2001 Tecnofil S.A.	3.6	2	0	0	3.6	2	0	0
2005 USMP	9	0	0	0	4.5	0	0	0
1993 Yanacocha	0	0.33	0	0	0	0.33	0	0
Total Portfolio:	187.66	21	34.4	15.69	118.76	20.37	33.4	15.69

Approvals Pending Commitment				
	Loan	Equity	Quasi	Partic
2004 UPC II	1	0	0	0
2005 Drokasa PCG	1	0	0	0
2004 CMAC Arequipa	7.5	0	0	0
Total Pending Commitment:	9.5	0	0	0

Annex 14: Country at a Glance

PERU: Peru Rural Electrification

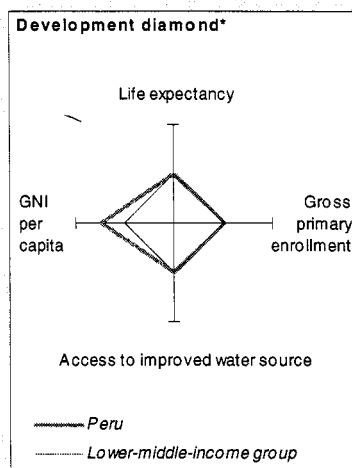
	Peru	Latin America & Carib.	Lower-middle-income
POVERTY and SOCIAL			
2004			
Population, mid-year (millions)	27.5	541	2,430
GNI per capita (Atlas method, US\$)	2,360	3,600	1,580
GNI (Atlas method, US\$ billions)	65.0	1,948	3,847

Average annual growth, 1998-04

Population (%)	15	14	10
Labor force (%)	2.7	0.9	0.7

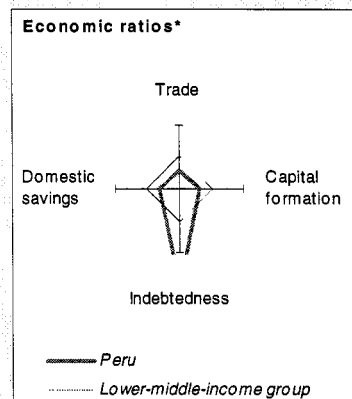
Most recent estimate (latest year available, 1998-04)

Poverty (% of population below national poverty line)
Urban population (% of total population)	74	77	49
Life expectancy at birth (years)	70	71	70
Infant mortality (per 1,000 live births)	26	28	33
Child malnutrition (% of children under 5)	7	..	11
Access to an improved water source (% of population)	81	89	81
Literacy (% of population age 15+)	88	89	90
Gross primary enrollment (% of school-age population)	118	123	114
Male	119	126	115
Female	118	122	113



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

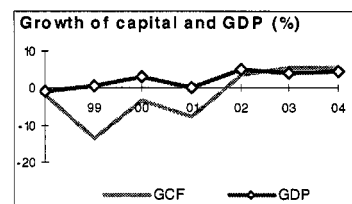
	1984	1994	2003	2004
GDP (US\$ billions)	19.8	44.9	60.8	68.6
Gross capital formation/GDP	20.6	22.2	18.8	18.5
Exports of goods and services/GDP	19.3	12.8	17.7	20.9
Gross domestic savings/GDP	24.6	18.9	18.8	21.1
Gross national savings/GDP	..	16.4	17.3	18.3
Current account balance/GDP	-2.0	-5.7	-1.5	0.0
Interest payments/GDP	3.1	12	2.1	2.1
Total debt/GDP	613	59.0	49.1	43.7
Total debt service/exports	29.8	17.7	21.3	25.2
Present value of debt/GDP	54.6	..
Present value of debt/exports	277.5	..



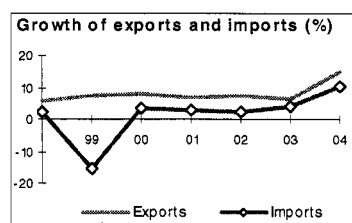
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	-0.7	2.8	4.0	4.8	5.1
GDP per capita	-2.7	12	2.5	3.3	3.8
Exports of goods and services	2.2	8.1	6.2	14.7	8.4

STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	..	9.2	10.1	10.1
Industry	..	31.2	30.1	29.9
Manufacturing	..	17.7	15.4	16.0
Services	..	59.6	59.8	60.0
Household final consumption expenditure	65.7	72.3	70.8	68.7
General gov't final consumption expenditure	9.7	8.8	10.4	10.1
Imports of goods and services	15.4	16.2	17.7	18.3



	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	1.1	4.4	1.5	2.0
Industry	0.4	2.0	5.4	6.2
Manufacturing	-0.6	2.0	2.1	3.0
Services	-1.5	3.0	3.1	3.5
Household final consumption expenditure	-1.0	2.6	3.2	3.4
General gov't final consumption expenditure	-0.9	3.2	3.7	4.0
Gross capital formation	3.1	-0.6	5.4	5.8
Imports of goods and services	4.8	2.3	4.0	10.4

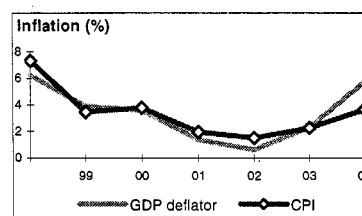


Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

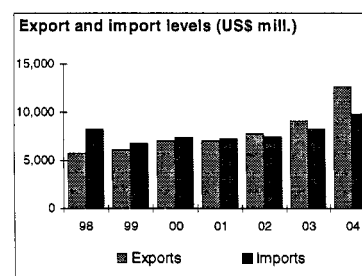
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	110.3	23.7	2.3	3.7
Implicit GDP deflator	109.9	26.2	2.3	5.7
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	14.7	14.9	15.1
Current budget balance	..	0.9	0.0	0.5
Overall surplus/deficit	..	-3.2	-1.8	-1.2



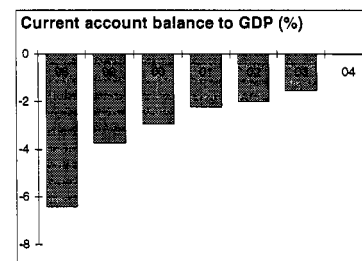
TRADE

	1984	1994	2003	2004
(US\$ millions)				
Total exports (fob)	..	4,598	9,091	12,617
Copper	..	824	1,261	2,446
Fishmeal	..	710	742	955
Manufactures	..	1,199	2,620	3,476
Total imports (cif)	..	5,596	8,255	9,824
Food	..	523	560	722
Fuel and energy	..	325	1,376	1,754
Capital goods	..	1,698	1,984	2,365
Export price index (2000=100)	..	102	108	130
Import price index (2000=100)	..	89	105	116
Terms of trade (2000=100)	..	114	103	112



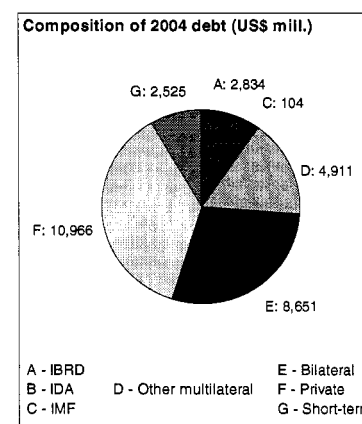
BALANCE of PAYMENTS

	1984	1994	2003	2004
(US\$ millions)				
Exports of goods and services	3,817	5,662	10,786	14,531
Imports of goods and services	3,031	7,161	10,804	12,581
Resource balance	786	-1,499	-18	1,950
Net income	-1,177	-1,804	-2,144	-3,421
Net current transfers	0	748	1,227	1,461
Current account balance	-391	-2,555	-935	-10
Financing items (net)	641	5,614	1,412	2,362
Changes in net reserves	-250	-3,059	-477	-2,352
Memo:				
Reserves including gold (US\$ millions)	0	7,355	10,240	12,665
Conversion rate (DEC, local/US\$)	3.47E-6	2.2	3.5	3.4



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US\$ millions)				
Total debt outstanding and disbursed	12,157	26,510	29,822	29,991
IBRD	508	1,554	2,789	2,834
IDA	0	0	0	0
Total debt service	1,184	1,144	2,553	4,023
IBRD	84	189	279	281
IDA	0	0	0	0
Composition of net resource flows				
Official grants	100	226	182	..
Official creditors	409	160	-12	130
Private creditors	489	460	1,182	-42
Foreign direct investment (net inflows)	-89	3,289	1,377	1,802
Portfolio equity (net inflows)	0	465	1	-74
World Bank program				
Commitments	40	334	373	294
Disbursements	130	171	344	234
Principal repayments	40	80	163	189
Net flows	90	91	180	45
Interest payments	44	109	115	92
Net transfers	46	-18	65	-47



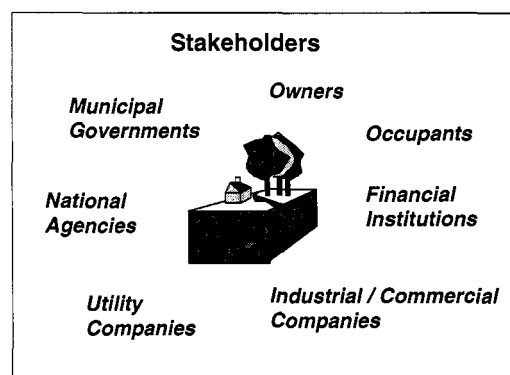
Annex 15: Institutional Assessment

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

1. Background

An institutional diagnostic was carried out during Project preparation to determine: (a) current institutional framework; (b) proper roles of relevant institutions to assure a coherent and effective execution of the Project; (c) Project implementation arrangements; (d) alternatives to build institutional capacity at different levels of Government; and (e) long-term requirements for the provision of high quality property-related services and regular dialogue with a variety of stakeholders (Figure 1)

Figure 1



2. Institutional Setup: National Agencies and Municipal Governments

COFOPRI. COFOPRI is a decentralized public agency under MINJUS. It was established as the agency responsible for the PNF, whose objectives were the social and economic integration of the poor, the enhancement of savings and investments, and asset appreciation through titling. COFOPRI developed the legal and institutional framework that facilitated the registration of valid property rights and the incorporation of the properties of the marginal informal sectors into the formal economy.³⁴ COFOPRI is widely recognized by the design of a secure, agile and effective property formalization system.

SUNARP. SUNARP is an autonomous agency under MINJUS. It is responsible for all the public registries (not only the real property registry) in Peru and will lead the real property registry unification process. It has established effective cost-control systems and adopted an objective basis for determining fee-for-service rates as well as decentralized services provision. SUNARP's Board comprises representatives of PCM, MEF and COFOPRI. Advisory Boards are established in each office with representatives of notaries and lawyers associations, private sector and civil society. These Boards can make proposals for practical directives for day-to-day operation of registry offices.

SUNARP has initiated a modernization program which will improve services by computerizing all existing registry data and capturing all incoming data in digital format. This modernization program will address a number of crucial issues for the development of an effective property rights system in

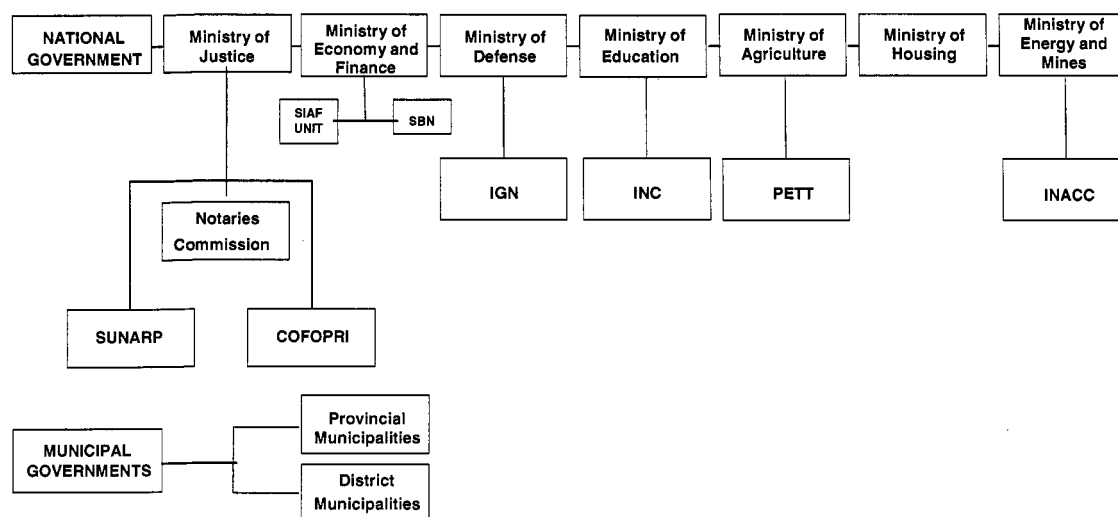
³⁴ *Ley de Formalización de la Propiedad Informal de Terrenos Ocupados por Posesiones Informales, Centros Urbanos Informales y Urbanizaciones Populares* (Law No. 28391). Supreme Decrees No. 05 – 2005 – JUS; 011 – 2005 – JUS; 015 – 2005 – JUS.

Peru, including the integration of cadastral data with registry records, incorporating a geo-referenced data base, and increasing the capacity to validate and update registry data for rural and urban parcels.

Full-fledged unification of the property registries requires the integration of data system, to allow information flow between different legacy databases. Organization of such databases is required in order to achieve a standard that serves as a single database for SUNARP-RP, providing registry information of equal quality to all users and with equal efficiency in any RP office. Information maintenance will be automatic whenever a transaction is made over a registered property, through the coordination/integration of the competent agencies/authorities' systems.

SUNARP-RP collects data on rural, urban and peri-urban properties, generated and used by different stakeholders. Under the law, the registry system must be financially sustainable, autonomous and capable of supporting its operation, maintenance and upgrading. SUNARP-RP will provide tools for the utilization of registry/cadastral information by: (a) the national and municipal governments in the exercise of their respective jurisdictions (for instance, for taxation purposes); (b) other public agencies like regional governments; public sector enterprises (infrastructure, public utilities, social services); and (c) private institutions like owners and tenants, heirs, grantees (parties to private transactions), investors (including constructors and financial institutions), and intermediaries (notaries,³⁵ lawyers, realtors) that pay for information or services provided. Therefore, SUNARP-RP policies should result from consensus-building between users and generators of this information.

Chart No.1 National and Local Agencies involved in Property Rights



MEF SIAF Unit. The SIAF (*Sistema Integrado de Administración Financiera*) Unit under MEF is responsible for providing technical assistance to Municipalities for the development of a cadastral module for Local Governments (SIAF-GL). CAF has granted financial assistance for a pilot that will test the cadastre module of SIAF; Project activities will be coordinated with MEF-SIAF Unit to

³⁵ The notaries Commission operates directly under the Minister of Justice.

ensure that the proposed cadastre-related activities with municipalities are fully compatible with the SIAF-GL.

SBN. SBN is responsible for issues related to State-owned land and has advanced formalization campaigns. Currently, SBN has undertaken a program to determine which land belongs to various government agencies.

Municipalities. The role and responsibilities of municipal governments have been recently modified by a Municipalities Organic Law that significantly increases their powers and provides them with enhanced ability to collect and spend revenues at the local level. Municipalities will also assume a key role in determining land use towards the development of a coherent urban planning system. The Project is expected to constitute a vehicle to support the Peruvian decentralization process and to strengthen the municipalities through the formalization and cadastre subcomponents, by supplying integrated cadastral data that will be a key tool not only in tax collection but also in the preparation of land-use zoning and planning methodologies.³⁶

Instituto Catastral de Lima (ICIL). This agency is responsible for the development and maintenance of the Lima City's Cadastre. The ICIL has advanced 10% of the Lima *Cercado* Cadastre and has sufficient funding to complete this task. It has also prepared a plan to secure international funding for the Lima Province Cadastre based on a trust-fund scheme to be agreed with the District Municipalities. In the Province of Lima there are 43 districts and only 5 have their own cadastres built on different technical specifications.

PETT. PETT is under MAG and issues titles in rural areas. PETT's complementary mandates are to conduct cadastral surveys, collect and organize information from farmers and register their properties. PETT has developed inter-institutional arrangements with other institutions involved in property rights issues (SUNARP, COFOPRI, and MEF).

IGN. All topographic mapping in Peru has to be done in accordance with IGN standards. IGN regularly validates mapping work done by private sector companies. It also provides practical training on geography and mapping.

INC. The administration and conservation of any historic or archeological site is under the jurisdiction of the National Culture Institute (INC). INC will issue an official finding, after which titling will be allowed, to ensure that Project activities do not result in unintentional titling of areas of high cultural value.

3. Overall Decentralization Process: Devolution of roles and responsibilities from National Agencies to Municipal Governments.

Principles. GoP examined the decentralization experiences of other countries and reflected these lessons in its own program to avoid the risks of disruption of services, fragmentation of public interventions, uneven distribution of public resources, disparities in access to public services and deepening of regional economic inequalities.

Building on that experience, GoP adopted a program based on three principles: (i) decentralization should be fiscally neutral, meaning that the decentralization process should not create an additional fiscal burden, thanks to a *pari passu* reduction in national government expenditures as

³⁶ *Ley que crea el Sistema Nacional Integrado de Catastro y su vinculación con el Registro de Predios* (Law No.28294)

responsibilities and resources are transferred to sub-national entities; (ii) decentralization should be gradual, with transfers of resources and responsibilities taking place by phases and restricted to those entities that have demonstrated effective capabilities; and (iii) decentralization should complement economic competitiveness efforts by enabling local and regional governments to facilitate and undertake growth-enhancing investments, target potential growth sectors and mobilize private sector resources³⁷.

General Legal and Regulatory Framework. GoP has achieved significant progress since 2001 in passing legislation that establishes the principles for decentralization and the institutional framework of regional and municipal governments. This framework currently includes the following legal instruments: (a) a Constitutional Amendment and a Decentralization Framework Law³⁸ which sets out the guiding principles of the decentralization process for: (i) the assignment of services and competencies (shared, exclusive and delegated) to different levels of government; (ii) the development of fiscal rules and transfer mechanisms; and (iii) the sequencing of decentralization, starting with anti-poverty programs, to be followed by other sectoral transfers; (b) Organic Laws for Regional Governments and Municipalities which broadly define the roles and responsibilities of sub-national governments;³⁹ (c) Law of Territorial Demarcation; (d) Law on Participatory Budgeting, supplemented by regulations which provide a framework for civil society participation in the budgetary decision-making process at the local and regional levels, including a framework for consultation in the design of new projects; (e) Fiscal Decentralization Law which specifies mechanisms to be used for transfers to regions and identifies the tax-sharing and tax administration arrangements between the central government and the regions at a later stage of the decentralization process (when the current regions are merged in line with the Macro-region Incentives Law). It also reinforces the constraints on the sub-national governments to engage in borrowing and expanding expenditures; (f) Law on Promotion of Decentralized Investment which establishes a framework for fostering private investment to the regions; (g) Accreditation System Law for Regional and Local Governments which provides a system for the certification of minimum capacity standards for sub-national governments to qualify for the transfer of functions and the corresponding resources; (h) Macro-regions Incentives Law designed to create conditions, incentives and instruments for the voluntary merger of regional governments (via referendum) in order to obtain an optimum number of economically viable regions; and (i) Framework Law for Public Employment which sets the overall framework for civil service reforms and payroll census.

The implementation of the institutional framework for decentralization has also substantially advanced, with the creation of the National Decentralization Council that coordinates the overall process and the setting-up of regional and local government institutions, including consultative bodies with civil society representation.

1.1 *Challenges.* GoP still has significant challenges ahead in relation to establishing the rules that will govern the social sectors and the anti-poverty programs in a decentralized context. Starting in mid-2002, legislation was passed giving regional and municipal governments significant responsibilities and funding for social programs; regional authorities were elected for the first time. A group of social programs were transferred to municipal and regional governments in 2003, and more programs and funds were transferred in 2004.

³⁷ Program Document for a proposed Second Programmatic Decentralization and Competitiveness Structural Adjustment Loan, November 2, 2004, Report No. 30249-PE, pg.10

³⁸ *Ley de Bases de la Decentralización* (Law No. 27783)

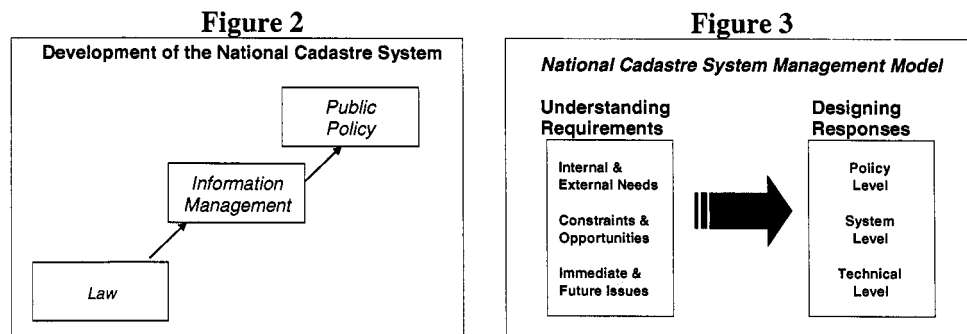
³⁹ *Ley Orgánica de Gobiernos Regionales* (Law No. 27867) and *Ley Orgánica de Municipalidades* (Law No. 27972)

1.2 The decentralization agenda for the next two years seeks to ensure fiscal and institutional sustainability, and enhance the accountability and delivery capacity of sub-national governments. Peru is currently advancing in the areas of common accounting, budgeting, monitoring and evaluation and fiscal reporting standards for all levels of government. The challenge at this stage is to harmonize incentives for fiscal discipline and respond to demands for additional resources at sub-national levels.

4. Real Property Rights and Decentralization.

a. Inter-institutional coordination mechanisms

Supreme Decree N° 020-2002-AG created a Commission to prepare a draft law organizing a National Integrated Cadastral System linked to RP. The Commission was headed by SUNARP and comprised representatives of the fourteen agencies that manage cadastres in Peru, at the national and sub-national level (including the ones mentioned in Section 1 above). After a long consensus-building exercise, the Commission approved a draft Law that: (a) declared of national interest the creation of the National System and regulates the participation of the fourteen agencies in such System; (b) defines the System as a set of processes aimed at integrating and standardizing cadastral information, and linking the cadastre with RP; (c) identifies as one of the System's main objectives the establishment of mandatory standards for the production, processing, storage, updating and retrieval of cadastral data; (d) establishes an autonomous Technical Secretariat within SUNARP to organize, regulate, coordinate and direct the production of cadastral information, as well as to manage the infrastructure in which the information produced by the different agencies will be processed and aggregated. This bill became Law No. 28294 in June 2004. Figure 2 describes the system development envisaged in the law.



This law governs the integration and merger of the standards, nomenclature and technical processes of different cadastre-generating entities at the national, regional and municipal levels of Government. The main bodies of the System are: (i) the National Cadastre Board; and (ii) the Technical Secretariat, located in SUNARP. The System comprises: (A) SUNARP, whose Superintendent represents the National Cadastre Board; (B) Regional Governments, through a designated representative; (C) Provincial and District Municipalities, represented by the President of the Municipalities Association; (D) the Metropolitan Municipality of Lima, represented by the Executive Director of ICL; (E) IGN, represented by its Executive Director; and (F) INACC also represented by its Executive Director. The heads of COFOPRI and PETT are also members of the Board.

The most important functions of the Board are: (i) to determine the System's policies; (ii) to approve mandatory directives for property cadastre activities; (iii) to approve agreements or

contracts to be entered into with national and foreign entities for the collection, update and maintenance of cadastral information; (iv) to establish standards and technical norms; and (v) to establish the IT system that will integrate the cadastral information generated by the system members. The entities in charge of generating the Single Cadastre Code are the District Municipalities, which can commission cadastral mapping to other public entities like COFOPRI. Figure 3 shows how the system is expected to operate.

b. Institutional challenges identified during Project preparation

Main institutional issues identified during Project preparation were: (a) overall weakness; (b) complexity of the institutional set-up; and (c) lack of long-term vision (5 to 10 years). To address these issues it was proposed early during Project identification: (a) to utilize the Project preparation as a tool to develop a long-term vision as part of a previously defined State policy; (b) to carry out strategic planning seminars; and (c) to establish inter-institutional coordination mechanisms. The Bank was accepted by the institutions involved as a facilitator of the process.

Figure 4

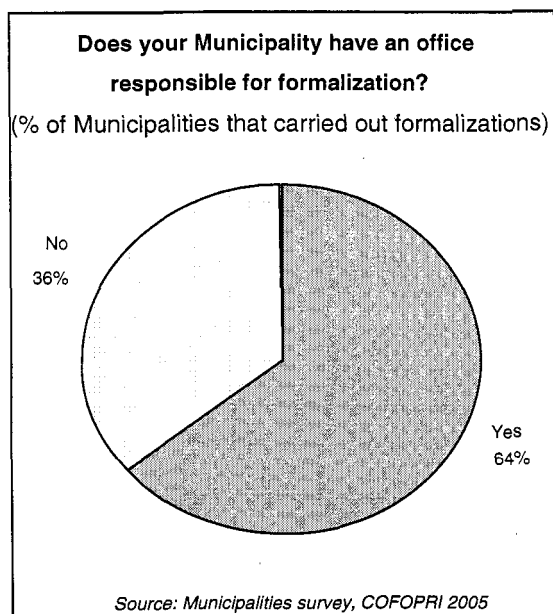


Figure 5

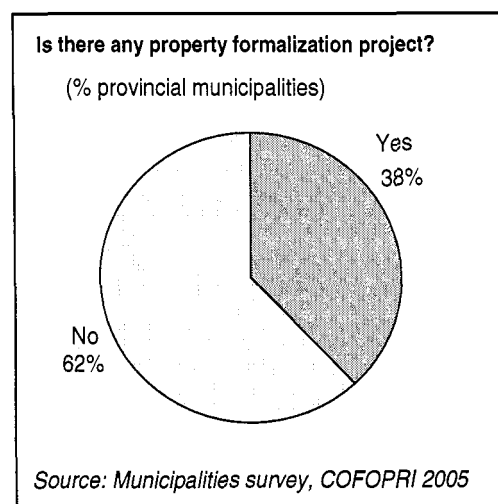


Figure 6

How do you plan to carry out the formalization project?
(% of municipalities with formalization project)

	%
With municipality personnel	42.11
Will hire a specialized institution	5.26
COFOPRI	52.63
Total	100

Figure 7

Main barriers for effective formalization
(% of provincial municipalities)

	%
Qualified personnel	47.4
Budget	42.1
Lack of equipment	21.1
Complex Areas	21.1
Legal problems	21.1
Technical assistance	15.8
Beneficiaries' support	15.8
Do not know – did not respond	15.8
Private areas invasion	10.5
Total	100

Source: Municipalities survey, COFOPRI 2005

Figure 8

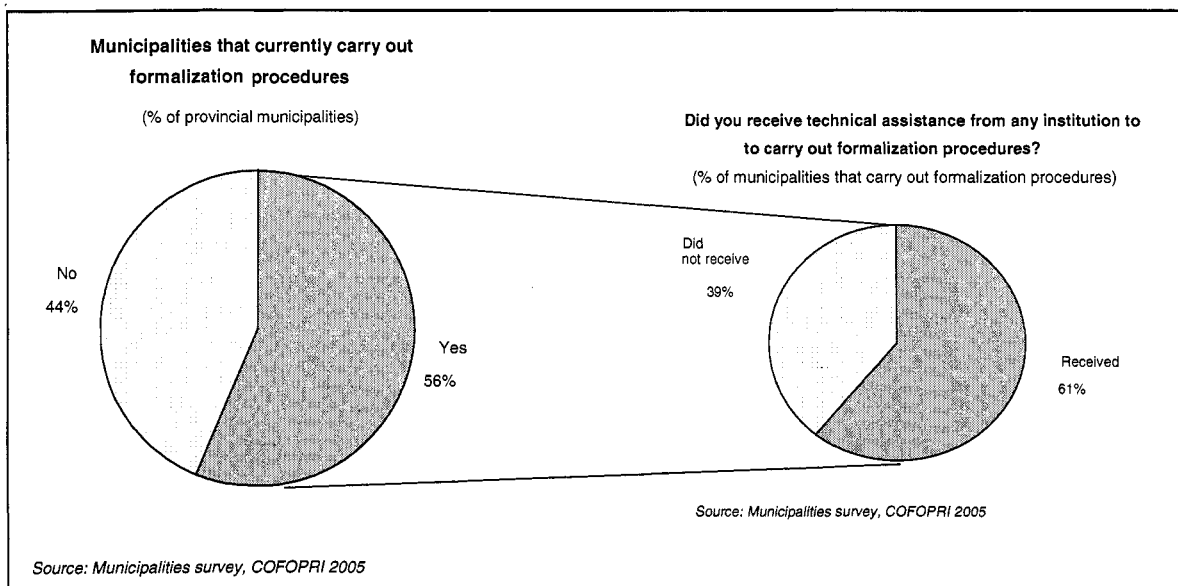


Figure 9

What is your opinion on the technical assistance provided?
(% of provincial municipalities that received technical assistance)

	%
excellent	17.65
good	58.82
regular	17.65
bad	5.88
Total	100

Fuente: Municipalities Survey, COFOPRI 2005

Figure 10

Does the municipality have Cadastre?
(% of municipalities)

	District	Provincial	Total
Has cadastre	34.1	58.0	43.2
Does not have cadastre	65.9	42.0	56.8
Total	100.0	100.0	100.0

Source: Municipalities survey, COFOPRI 2005

Figure 11

Type of cadastre the municipality developed (% of municipalities that have cadastre)	
	%
Property cadastre	31.58
Municipal cadastre	68.42
Total	100

Source: Municipalities survey, COFOPRI 2005

Figure 12

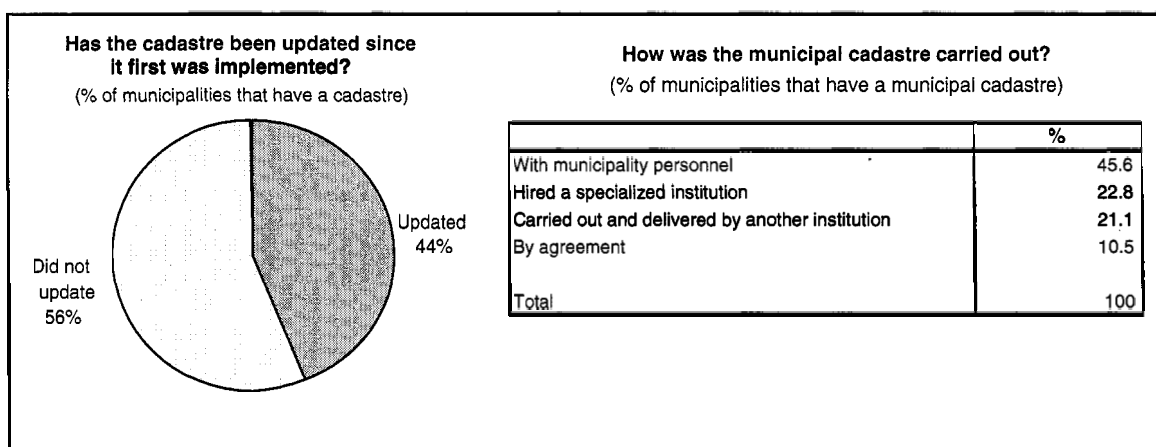


Figure 13

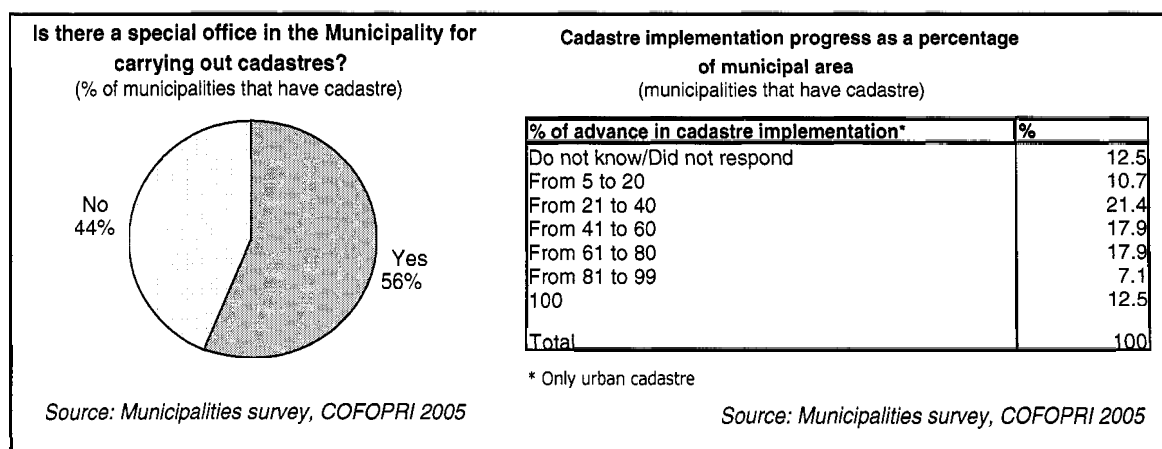


Figure 14

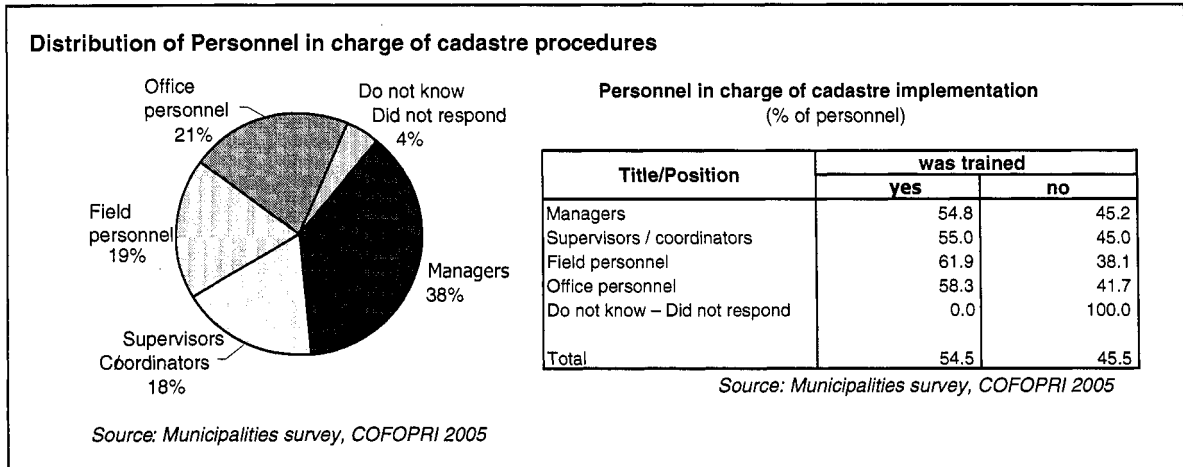


Figure 15

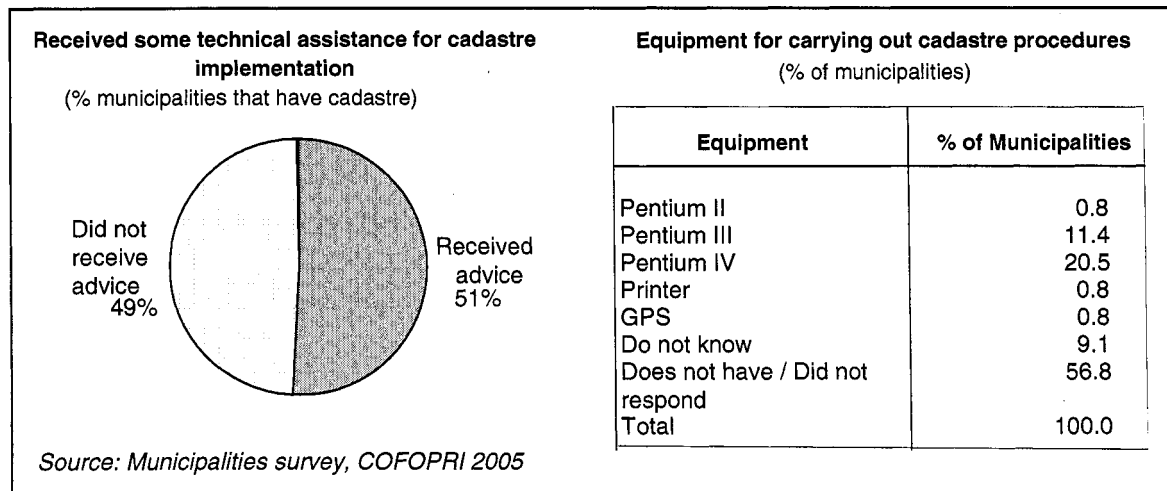
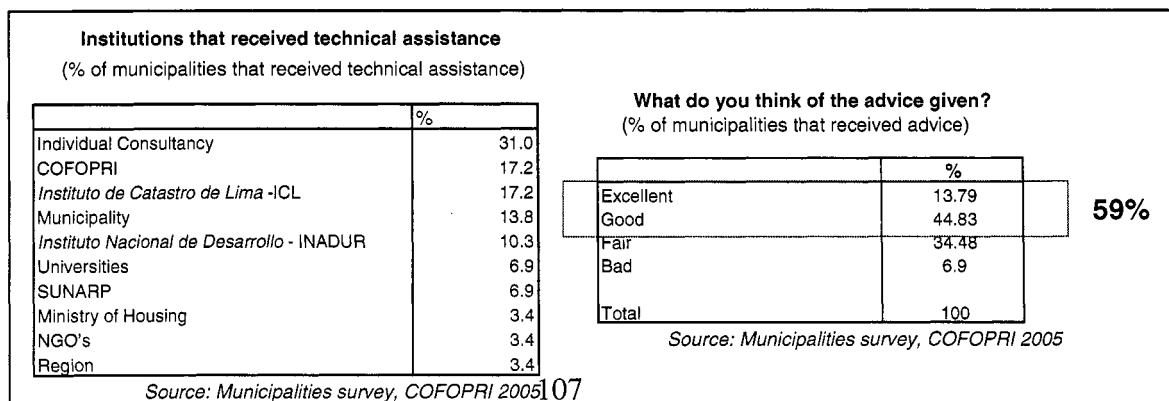


Figure 16

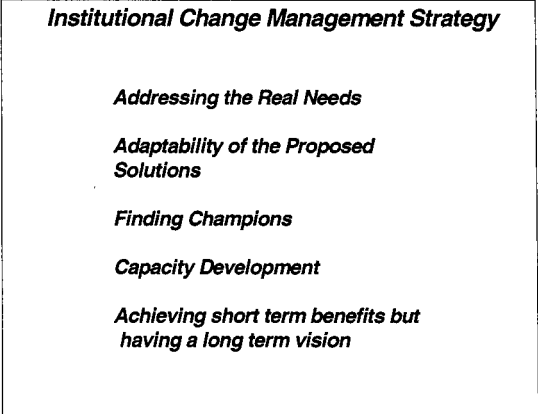


During the workshops and seminars conducted as part of Project preparation several principles were identified as critical to pursue the institutional reforms required for effective property rights recognition and protection: (a) determination of decision-making levels; (b) reassignment of field functions to decentralized levels; (c) utilization of strengths (COFOPRI/RPU's experience in area-based formalization and institutional change management; SUNARP's experience in information systems and technological infrastructure); (d) Project support to improve performance (through technical assistance, training, equipment, etc.); and (e) development of new skills (new technology, new products and new services) also with Project support. Institutional reforms should be carried out under a joint technical/political leadership that generates and balances a common vision. COFOPRI's proposed strategy on change management is summarized in figures 17 and 18.

Figure 17



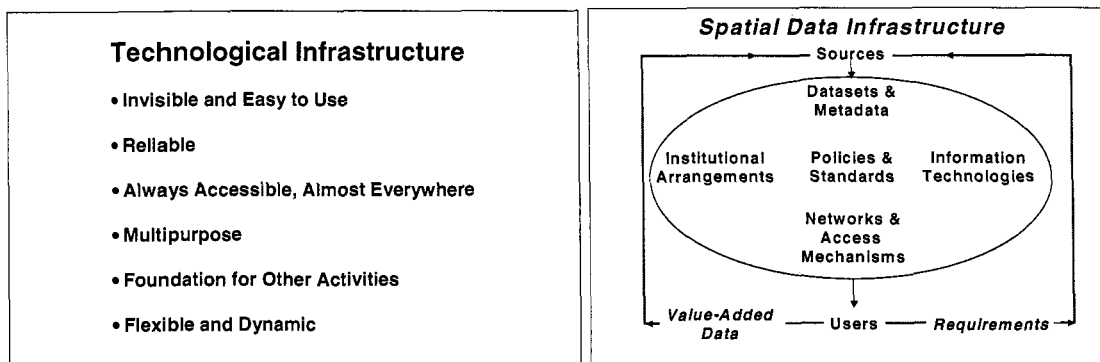
Figure 18



Given the relevance of property information, specific principles on information management and generation were selected: (a) information is generated to be used: use determines the value of the information; (b) information maintenance (and therefore information value) should optimize its use; (c) as head of the Cadastre Board, SUNARP should be the agency responsible of generating a long-term State on the allocation of resources for the administration of reliable information services. SUNARP's proposed principles for the development of technological and spatial data infrastructure are summarized in Figures 19 and 20.

Figure 19

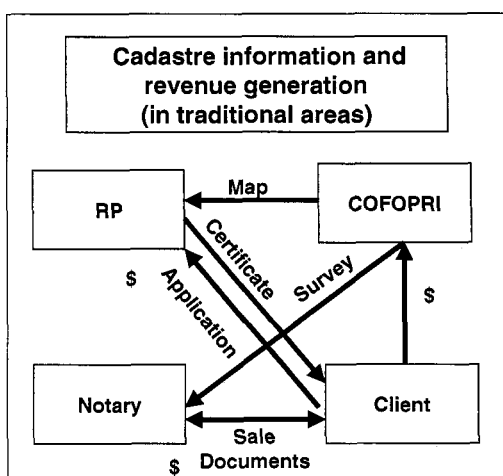
Figure 20



For the purposes of inter-sectoral coordination in cadastre matters, the National Cadastre System Board will operate as a specialized body that counts with the authority to generate the relevant regulatory framework. This Board will: (i) include representatives of the users; (ii) be responsive to public and private sector interests; (iii) be able to make decisions over public interests; (iv) have authority delegated from upper levels of Government in accordance with the applicable legal framework; and (v) be able to follow up in order to rectify and evaluate results.

A key element for sustainability will be the financing structure. SUNARP-RP will generate revenues but the establishment and maintenance of the national cadastre system is expensive. Registry-cadastre unification will help to: (i) improve and maintain the integrity of the information; and (ii) remain financially autonomous (no contributions from MEF are expected). SUNARP-RP could market access to information on traditional areas, converting the registry into a “data warehouse” for analytic purposes such as marketing strategies formulation, real estate investment plans, public services to be developed, etc. SUNARP’s proposal on how to utilize cadastre information for revenue generation is summarized in Figure 21.

Figure 21



6. Project Approach to Institutional Reform

a. Strategic Choices. Strategic choices were limited to issues of Project scope and concept: (a) as opposed to the UPRP, this Project will develop an overall property rights policy framework (not constrained to urban areas, it will look into the right long-term policies for issues like unsatisfied

land and housing demands, or stringent and inadequate urban development regulations) and to that end, it will require close coordination with PETT, central and local government agencies; (b) the Project will support SUNARP-RP information and technological infrastructure at the national level (not only for recently formalized areas but also in traditional areas); (c) to maintain the capacity of COFOPRI and SUNARP, and based on the experience accumulated under the UPRP, a mixture of output-based short-term contracts (for supply of mapping, computer programming, and process audits, for instance) and regular long-term contracting (for other functions) will be used; (d) to maintain a cost-effective formalization process, the Project decentralized formalization component will only be implemented in areas chosen in accordance with eligibility criteria comprising density of informal settlements, proximity to major economic activity centers and land value.

b. **Comprehensive framework.** The Project will strengthen the ability of national and local Government agencies to respond effectively to services demand, and develop a long-term vision of property rights to better protect public and private property. Bank involvement will help to develop an integrated framework that includes real estate markets development and social development considerations (gender, poverty). A comprehensive framework has been preferred to the targeted approach of the UPRP in order to achieve greater focus through the policy-making component, although titling will remain limited to urban and peri-urban areas. The focus on local governments represents a major strategic departure from the highly centralized approach of the original design of the UPRP and reflects the lessons learned during its implementation in terms of involvement of local authorities; it is also fully consistent with the overall decentralization process of the Peruvian State financed by other Bank operations.

c. **Policy Reforms.** The Project will provide the operational framework to coordinate initiatives for the formulation and implementation of property rights policies. Key principles will orient the required reforms: (a) security of property rights is a public service to be provided by the State; (b) land is a basic asset for the poor and should be protected through an integrated approach that takes into account formal and informal rules, and provides equal protection to the poor; (c) strengthened institutional capacity at the national and municipal level is essential to guarantee quality and timely property rights protection; and (d) stakeholder consultation and participation should be a continuous process, for transparency and accountability purposes.

d. **Institutional strengthening and inter-institutional coordination.** The involvement of various institutions is critical to consolidate an effective property rights framework in Peru. The Project will specifically support reform initiatives that will enable inter-institutional coordination to develop a more effective property rights system (including accessible registry offices and municipal real property cadastres under Components 2 and 3), by deconcentrating authority, complementing responsibilities, and empowering community organizations. The Project will support such institutional strengthening activities at national and local level for the reformed institutions to assume new roles and responsibilities.

e. **Close linkages between national and local government authorities.** Strengthening local offices management, outreach to communities, appropriate financing, and inter-institutional coordination are among the main issues facing COFOPRI and SUNARP over the next several years. COFOPRI was created as a specific purpose temporary agency, whereas the activities of SUNARP will continue indefinitely in the future. However, COFOPRI has gained substantial experience about formalization and the generation of cadastres nationwide and could play a major role in the development of property rights policies, in collaboration with local governments and the private sector.

The institutional strengthening subcomponent (C.2) will deal with the involvement of a number of municipalities that requires: (a) multi-level partnerships, in which State institutions at the national and local level work collaboratively to accomplish commonly agreed objectives, including decentralization of formalization and cadastres; (b) partnerships with local organizations (CSOs and the private sector) to ensure participation and consultation, as well as cadastre maintenance; and (c) inter-institutional coordination at the national level to assure broad policy dialogue on a permanent and sustainable basis. This approach will entail open communication, shared responsibilities, and effective coordination among the leadership and staff of the institutions involved and will allow them to play their respective roles in a complementary manner.

f. Local revenue generation. For municipalities, DCDPL II will support strengthening local cadastres for purposes of property taxation. Municipalities have a potentially dynamic yet largely under-utilized tax bases and need adequate incentives to mobilize their tax revenues. The Government's priority agenda with respect to municipal taxation is to provide country-wide support for updating and facilitating access to the real property cadastre. To strengthen the nationwide cadastre system "*Fondos de Apoyo al Plan Catastral Distrital*" will be introduced in every provincial municipality between 2005-2006 financed by a share of the property tax collected in the districts.

The National Integrated Cadastre System will allow the local cadastres to be connected progressively with the property registry under SUNARP. Further steps will be required to increase property taxes collection and expand the cadastre systems. A handful of innovative examples of how municipalities can increase their own revenues already exist, including independent tax collecting agencies, tax incentives and outsourcing of the establishment, operation and maintenance of cadastre systems. The introduction of the SIAF-GL cadastre module and the development of the SIAF collection module are the first steps in that direction. The Executive –based on authority granted by Congress– has also approved modifications to the legal framework for local government taxation to facilitate improved tax collection and administration of sub-national entities.⁴⁰ One of the triggers under DCDPL I for DCDPL II preparation was the full-fledged development of the SIAF-GL collection module and the set up of the SIAF-GL cadastre module in at least 40% of Provincial Municipalities.⁴¹

g. Contractual Accreditation. The Project will also reflect the best practice in terms of effective transfer of responsibilities to local levels of government, a major challenge in designing and implementing an effective decentralization process. In designing the transfer system, the principles of subsidiarity, economies of scale and institutional capacity will be balanced. International experience indicates that a strategy is needed to mitigate key risks such as: (i) asymmetries between assigned responsibilities, revenues and expenditures that could lead to potential duplication, inefficiencies and deficits; (ii) deterioration of service delivery; (iii) limited accountability due to a mismatch between transferred responsibilities and resources; and (iv) politicization of the transfer process in which political interests prevail over technical and fiscal criteria thereby jeopardizing the sustainability of the decentralization process.

In the area of property rights, the Municipal Organic Law and the Formalization Law do not provide specific rules for the transfer of responsibilities and resources. However, under the Participation Agreements to be entered into under the Project, Municipalities will have to qualify for the

⁴⁰ Legislative Decree No. 952 specifically provides mechanisms to improve the efficiency of municipal tax administration and a special system to promote compliance of small taxpayers.

⁴¹ One indicator of performance under DCDPL II will be a 5% increase in tax collection by provincial municipalities with SIAF-GL cadastre module.

technical assistance of COFOPRI after having met certain criteria that validate the availability of minimal management and administrative capacity. This contractual accreditation system will be fully consistent with the GoP's commitment to a gradual decentralization process—the first pillar of GoP's decentralization program. This gradual approach also mitigates potential risks related to sustainability.

7. Criteria for selection of components

a. Component 1 – Comprehensive Real Property Rights Policies. Early during Project identification it was realized that a policy agenda should be agreed so as to bring some order to the multiple institutional agendas in the area of property rights. As a result, the Land Tenure Center of the University of New Brunswick was hired to carry out a series of in-depth interviews and inter-institutional meetings/workshops to prepare a Policy Paper that summarized an agenda that reflected an agreed common minimal denominator to start working on the Project and that suggested further policy areas to be worked out during preparation/implementation.

The policy paper was subsequently endorsed by MEF, MINJUS, COFOPRI and SUNARP during a March 2004 workshop. The reforms the Project will support are expected to go well beyond registry unification and national cadastre system to involve a more comprehensive vision of property rights/urban land issues. This component will strengthen the institutional roles of COFOPRI and SUNARP, but will also require the leadership of MINJUS and MEF in order to provide a broader focus than the UPRP.

The policy-making agenda broadly agreed by GoP agencies is recorded in the policy paper prepared by the University of New Brunswick (See Appendix). However, some extra items will be addressed under Component 1: (a) regulatory framework for simplified building formalization; (b) regulations for the Cadastre Law, including rules on data sharing with public and private entities; (c) notaries services (including an analysis of users' behavior and willingness to pay); and (d) overall land administration policies in urban areas to prevent new invasions by making land available. The participation/consultation side of this component will include dialogue with the notaries and lawyers to look for affordable alternatives to the costly public deed (the need to increase the number of Notaries will also be considered).

Project description (see Annex 4) details the policy issues to be tackled and will require strong GoP's commitment to move ahead, a commitment that may be limited by the frequent changes in the Peruvian Cabinet and the Presidential/Congressional elections of CY06 but that was considered sufficient for Project launch at the time of appraisal. One option considered during identification was to limit the Project to policy implementation but since that time the chances that the required diagnostic studies, consensus-building and legal/regulatory proposals were available before Board presentation were small; incorporation as a Component in Project design was the preferred option also to match the political cycle. Component 1 retained flexibility to keep in motion the reform process and gather the support of "outsiders". Full-fledged implementation of the policies will only start once a new National Government is elected (middle of 2006).

b. Component 2 - Decentralized Formalization and Cadastre Services. The National Formalization Strategy referred to in Component 2 will specifically link formalization with the expected economic and social benefits, and redesign COFOPRI to support their achievement, as well as continuously adapting the formalization processes to face the challenges of new areas/communities. The Project will move beyond titling and registration into facilitating realization

of the estimated benefits and will help COFOPRI to transform itself into a “broker” among the major outside stakeholders (municipalities, micro-finance institutions, communities).

The Project endorsed the proposal that formalization work conducted in local jurisdictions be co-financed by the interested Provincial and District Municipalities. The specific forms of such co-financing will be determined in the Participation Agreements to be signed by the municipalities. However, it is not expected that the contributions in cash by the poorest municipalities will be significant; as an alternative, in-kind contribution in terms of staff and physical facilities will be considered.

Regarding direct beneficiaries, the Project will retain the no-charge principle for the issuance and registration of the first title so as not to impose any barrier to get into the registry system to people that have always been out of that system and represent a potential for increased registry services demand.

For the cadastre of the non-formalized areas, the National Cadastre System Law provided a gradual process. New transactions should be recorded in the registry with a geo-referenced parcel map certified by the municipal authorities (*Código Único Catastral*). Therefore, it is expected that the District Municipalities will recover their contribution to the cadastre work conducted with the assistance of COFOPRI through the fees they will charge to the parties to subsequent transactions that need registration for them to obtain the required parcel maps. The level of the fees should also be specified in the Participation Agreements and will establish a differential between formalized/non-formalized users in order not to generate extra incentives to revert into informality, while keeping overall transaction costs low.

The registry system in Peru can only be “deconcentrated” in terms of more local presence through local offices. Only the generation of geo-referenced parcel index will be decentralized since the Municipalities Organic Law and the National Cadastre System Law entrusts that responsibility to District Municipalities.

c. Component 3 – Registry Services Provision. During preparation of Component 3 the issue of SUNARP offices’ accessibility for recently formalized property-holders and the fee structure of SUNARP was carefully looked at. Although SUNARP has improved significantly the quality of services (as recorded in their monthly reports), it has not set up modern performance standards (they only look at statistics on transactions processed but not at their cost or duration) and the Project will help them to develop such standards. For the cadastre subcomponent, consultants will determine the most appropriate technology for the densification of the geodesic network, and explore alternative technologies to resolve super-positions or gaps. Subsequent transactions will be subject to a preferential fee; the current simplified fee structure will be revised to find a balance between cost-recovery and access-for-all principles and the Project will study how to develop a more segmented tariff on the basis of financial projections for the life of the Project and beyond.

d. Component 4 – Formalization Benefits Dissemination. Component 4 will re-direct COFOPRI’s role from titling to an “advocacy-technical assistance institution” that helps credit providers, formalized settlers and municipalities to find practical solutions for common problems. Component 4 was structured specifically to that end.

Appendix

Strategy Paper

Diagnostic

Informal real property in Peru has largely been the result of the lack of effective institutional arrangements to provide cost and time efficient access to land and housing for a growing population, especially in urban areas. Informal property, which lies outside the formal law and markets, has been recognized as a 'dormant' asset in Peruvian society and there have been several major, and still ongoing, efforts to tap this asset. These include UPRP, PETT and other projects funded by NGOs to formalize *de facto* human settlements and to streamline the official registration of property rights.

However, as identified at the stakeholder meeting in March 2004 in Lima, sponsored by MEF and the Bank, there are still significant issues related to property rights in Peru. These include, but are not limited to: (a) the compartmentalization of land information management within numerous agencies and at various levels of government which affects the quality and availability of information; (b) lack of continuity in policies affecting property and of completion of registry reforms; (c) the remaining informal property in rural and urban areas, which may not be easily captured in large-scale systematic campaigns; (d) lack of a culture of registration and registration incentives which endangers even registered land because subsequent transactions are not being recorded; (e) lack of capacity at the local level to deal with formalization under the new decentralization policy; (f) the complexity of laws and regulations affecting property and property transactions; (g) overlapping and unclear mandates within government; and (h) lack of appropriate land use regulations and enforcement of existing regulations.

A new strategy was required to provide improved security of tenure. The Strategy Paper traced the history of the property reforms and analyzed the problems in the context of four key areas related to security of property: (i) strategic economic development; (ii) policies, rules, and mandates; (iii) completion of the registry reforms; and (iv) completion of the formalization process. The Paper then outlined issues that should be considered in developing a strategy based on international experience.

Proposed Strategy

International experience in property reforms have shown that there are several key elements in achieving successful programs. These include:

(a) **Lessons Learned From Previous Initiatives:** Peru has had extensive experience in property formalization and reforms of the registries of property rights. It is critical that this experience be captured in any new initiatives. The UPRP for example demonstrated the importance of information campaigns, of streamlined formalization processes, and parcel based information management in the registries. It also demonstrated the benefits of addressing property rights of women and providing support to small businesses in obtaining credit. These experiences should be included in any new strategy.

(b) **Strong Political Support at All Levels of Government:** An overwhelming factor in making successful reforms is strong political support. This involves communicating a clear strategy at every level of government, gaining political trust by delivering clear short and long-term benefits, and actively seeking support at the highest levels. Peru needs to gain renewed support at all levels of government if a successful strategy is to unfold.

(c) **Citizen Awareness and Participation:** Peru has been a leader internationally in demonstrating how important information campaigns and citizen engagement are to moving property reforms forward effectively and efficiently. As responsibilities for formalization and maintenance of land information are decentralized, these lessons need to be incorporated in strategies at the local as well as national levels. To accomplish this, consideration should be given to building greater capacity at the local level.

(d) **A Strong Coordinated Policy Framework:** Major issues are the complexity of laws and rules affecting property and the lack of continuity in policy implementation. International experience has shown that there is a need to build a coordinated policy framework if the greatest benefits of reforms are to be realized. There are four key policy areas that need to be distinguished but coordinated because each affects the others: (i) broad socio-economic policies; (ii) land (including land use and management) policies; (iii) property policies; and (iv) land information policies. As new initiatives, such as building spatial data infrastructures develop, there will be a need to clarify how these relate to these four policy areas.

(e) **Coordinated Institutional Framework:** The institutional framework affecting land and property in Peru, as in all countries, is a function of history, economics, geography, and socio-cultural issues. Institutional mandates are often segmented for historical reasons. Countries have tried various means of better organizing these mandates, including: (i) development of new agencies to oversee land and property; (ii) consolidating mandates within an existing agency; (iii) using coordinating committees; (iv) striking an interim task force, etc. Peru needs to examine these possible solutions to better coordinate efforts in formalization and management of property information. Without coordination, the full benefits of these efforts may not be realized and the costs cannot be minimized. To develop this new institutional framework there will be a need for leadership and political support.

f) **National Spatial Information Management Scheme:** Property security directly depends on the quality of property information management. If property information is unreliable, out-of-date, or incomplete, then the security of property rights cannot be ensured. Governments, financial institutions, and property holders depend on sound management of this information as a national resource. International experience has shown that property information needs to be considered within the broader context of land or spatial (geographic) information. Peru needs to develop an appropriate plan for managing property information within a larger land information management policy if the information that is collected during formalization is to provide secure property rights in the future.

Strategy Implementation

Any strategy implementation should develop coordinated property rights policies that prevent and minimize invasions. It should provide the necessary technical assistance for the preservation of the achievements of the legal reforms that allowed COFOPRI to successfully formalize properties within informal human settlements. It should ensure that the future legal reforms have a positive economic impact on access to, and permanence in, formal property rights.

Implementation should support the establishment of RP so as to: (a) improve the quality of registration services; and (b) assure the accessibility of registration services by the poor. It should also provide for technical assistance to design the new registration model for RP, and to gradually implement strategies to develop a cadastral base for RP.

The strategy should develop new formalization services: (a) adapted to the needs of remnant informal owners; (b) justified in terms of cost-benefit and cost-recovery; and (c) transferable to decentralized governments. It should provide for refining the current formalization processes, technical assistance and technology transfer to municipal governments, and validating services through pilot projects.

The strategy should aim at increasing the economic impact of property rights by: (a) the reduction of the information gap between formalized owners, and loan and infrastructure services providers; (b) a greater understanding of the real estate markets in marginal urban areas in order to identify the measures required to encourage, develop and facilitate property exchange and real estate investment; and (c) the identification of opportunities for alliances between the public and private sectors to promote the generation of businesses in the formalized areas and to facilitate investment in infrastructure and services.

During the March 2004 stakeholder workshop it was agreed that fitting within larger GoP policies of decentralization, national competitiveness, urbanization and housing, the following actions were critical for the improvement of property rights security in Peru: (a) a national land policy to provide overall consistency and improve equitable access to land and property for all citizens; (b) to reduce the overlapping and conflicting mandates among organizations responsible for implementing the land policy; (c) a land information policy to assist in property reforms and implementation of the land policy; (d) to change the pervading culture in Peru to be more registration conscious and provide the incentives to ensure the benefits of registration are understood and realized; and (e) an administrative reengineering in order to provide the institutional and organizational basis for consistent, clear, equitable, and efficient policy implementation.

Annex 16: Social Assessment

PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

1. Introduction

A social assessment (SA) was carried out during the preparation of this Project. The SA reviewed the outcomes of the UPRP from a social perspective, identified social issues the Project must consider to increase and consolidate the security of property rights, and recommended actions to enhance Project outcomes, in particular for poor men and women residing in urban and peri-urban areas.⁴² Project design took into account such recommendation and specific aspects will be included in the Operational Manual. Key recommendations included:

- Integrate an empowerment perspective in the property formalization process to facilitate grassroots capacity-building so that men and women can serve as advocates for property rights issues of concern to them, their families, and their communities;
- Broaden and strengthen behavior change communication, as a means to realize and sustain the benefits of secure property rights;
- Develop an action plan that links the promotion of a registration culture to improvements in the design and delivery of registry services;
- Develop a coherent, demand-driven, and need-based strategy to facilitate investments in formalized communities and promote equitable access to credit for low-income populations; and
- Strengthen Project monitoring and evaluation to contribute more effectively to operational decision-making.

The methodology comprised document reviews, in-depth individual interviews, and focus groups. As part of the document review, the SA examined the socioeconomic studies carried out by the UPRP (see Annex 12) to gain a deeper understanding of lessons learned. Likewise, the SA reviewed the reports for COFOPRI-UPRP baseline surveys, implemented in 2000 and again in 2004.⁴³ During a field mission to Peru in September 2004, the SA conducted 30 in-depth individual interviews and 2 focus groups with institutional stakeholders (COFOPRI and SUNARP) to gain further insight on lessons learned from the UPRP, identify socio-institutional and gender issues affecting the proposed Project, and validate the emerging findings of the document review. Particular attention was given to the people at the front line of service delivery, for example, community/field promoters, field surveyors, and conciliation specialists. Focus groups were carried out with SUNARP registrars and communication specialists who had participated in the registration promotion campaign carried out under the UPRP, with micro-credit and education specialists who had participated in a credit promotion initiative, and with COFOPRI promoters. The results of two stakeholder workshops provided additional inputs to the SA. The first workshop (March 2004) focused on broader policy issues and brought together key decision-makers to gather inputs for Project design. The second workshop (December 2004) brought together 77 participants (which included community leaders, provincial and district mayors, and the private sector) to discuss and

⁴² The SA reviewed Ruiz Abril, Maria Elena, "Operationalizing Gender in World Bank-Financed Rural Development Projects: Three Cases in Central America", FAO/World Bank, 2004. The insights gained from the case studies will provide a framework to operationalize gender in the Project. The SA also reviewed a Bank study on indigenous people in Latin America (Hall and Patrinos, 2004) and applied relevant policy recommendations.

⁴³ See Cuánto, "Baseline Survey", 2000, and Apoyo Consultoría, "Baseline Study, Final Report", 2000 for sample design, replicated in the second survey, see ESAN-IMASEN, "Second Baseline Survey and Study", 2004.

validate the conclusions of the March workshop, identify key themes and priority actions for the proposed Project, and generate consensus on stakeholder roles and responsibilities.⁴⁴

2. Overview of the Target Population and Effects of Property Formalization

The Project will formalize between around 815,000 urban and peri-urban properties of which approximately 515,000 will result in individual property titles that will benefit nearly 2.5 million Peruvians or about 10% of the total population. The Project will target informal low-income settlements but will also expand into more traditional non-poor areas within Participating Municipalities where non-regularized residential and commercial properties are located. The expanded yet targeted approach to formalization-cadastre services will help:

- Increase citizen and local government awareness about the relevance of property rights and promote a culture of registration at a wider societal level;
- Strengthen the capacity of local governments to operate more effectively in a climate of decentralization by supporting the development of a municipal cadastre, an important planning tool for urban development and local investment; and
- Generate cross-subsidies for the formalization process, and subsequently for the operation and maintenance of a quality municipal cadastre.⁴⁵

Nevertheless, as was the case under the UPRP, the direct and primary beneficiaries of formalization will continue to be low to moderate-income families that are at different phases of settlement and dwelling consolidation. This section provides an overview of the target population, drawing attention to factors that may constrain effective and equitable access to the socioeconomic benefits of property rights; discusses some of the findings of the Baseline and Follow-up Surveys; and identifies issues that may require further research.⁴⁶

Most of the target population is poor or extremely poor. According to the 2004 Survey, 60.5% of respondents considered themselves poor and nearly 25.0% extremely poor.⁴⁷ Poverty was perceived as more acute among households outside of Lima, in particular in the northern coast and highlands of Peru (*Costa Norte, Sierra Centro, and Sierra Sur*). Overall, a higher portion of the poor in the target population appear to be concentrated in the Peruvian Sierra. The percentage of integrated households was the highest in Lima and the urban southern Sierra, 38.6% and 33.1%, respectively. This highlights the socioeconomic diversity of the target population across and within geographical domains, which may have implications for the design and implementation of new decentralized formalization-cadastre services and “post-formalization” programs such as investment and credit promotion.

⁴⁴ Given time and resource constraints, the SA was not able to conduct interviews with formalization beneficiaries. However, the SA relied on UPRP studies, which adequately captured beneficiary perceptions on property rights issues, and on the final reports from two stakeholder workshops (March 2004 and December 2004).

⁴⁵ The Project will work with local stakeholders to determine the universe of non-regularized properties and structure the delivery of cadastre services (full cost-recovery basis, special tariffs, or no-cost principles). See Annex 1.

⁴⁶ This section draws on the results of the Baseline and Follow-up Surveys (2000 and 2004). Tables and charts are the product of Survey Reports. “Lima” refers to the Lima Metropolitan area. To explain or qualify some of the survey data, extensive use is made of other studies, including those financed by the UPRP.

⁴⁷ The Survey reported respondent-defined poverty (subjective poverty) so it may differ from poverty data reported in Peru’s National Household Surveys.

Table 2.1: Percent of households (HH) in poverty by geographical urban domain, 2004⁴⁸

	Lima	Costa North	Sierra Central	Sierra South	Selva	Mean
HH in poverty	50.0	64.8	64.4	63.1	58.6	60.5
HH in extreme poverty	18.1	27.9	29.2	23.1	18.6	24.9
Integrated HH	38.6	21.4	28.0	33.1	28.6	28.3

Source: 2004 Survey.

In terms of household structure and family composition, 75.4% (2083) of the population were male-headed households, most likely dual-parent families, in comparison to 24.6% (679) of single-parent families with female headship.⁴⁹ The percent of female-headed households was on average 4 points higher than the national average of 20.8%.⁵⁰ Mean years of schooling for the head of household was 7.8 years; illiteracy rate was 6.3%. Head of households reported a relatively advanced average age (54 years of age), and were approaching the third phase of their life cycles (*tercera edad*).⁵¹ On average, founding families had established residency within the respective informal settlement nearly two decades ago.

Table 2.2: Household (HH) composition and characteristics of HH head, 2000-2004

	2000	2004
Percent Male headship	76.1	75.4
Percent Female headship	23.9	24.6
Family resides in settlement/house since	1982	1982
Number of HH residents	5.4	5.1
Age of HH head	50.0	53.8
HH head years of schooling	8.1	7.8
Percent HH head illiteracy rate	7.6	6.3

Source: 2000 and 2004 Surveys

Customary marriage practices and its potential effect on the security of property rights. A study of formalized households in Lima found that most spouses had established families based on common-law traditions. The results of the study suggest that most co-ownership titles were issued to spouses in common-law (informal) marriage with established families; on the other hand, most single-owner titles were issued to single women with children and separated from or abandoned by their respective husbands.⁵² The same study revealed that *after* formalization, family composition and household structures had changed: (a) female household heads established new families; and (b) male spouses moved away from their households, transforming such households into *de facto* female-headed ones. Given the longevity gap between men and women, *de facto* female headship may also result from widowhood. In the former case, forging new relationships may be part of an

⁴⁸ Survey sample comprised 2,762 households: 717 in Lima Metropolitan; 1142 in the urban northern coast (Piura, Chiclayo, Trujillo, and Chimbote); 603 in the central urban highland (Huancayo); 160 in the southern urban highland (Arequipa); and 140 in northern urban *Selva* (Iquitos).

⁴⁹ Headship was identified as the person who other members of the HH recognized as such, the HH member who contributed most to household earnings, or as last resort, the eldest member of the HH. Note that another study examined data from the 2000 Baseline Survey and showed that in HHs where *both* spouses were present, 17.1% of them identified a woman as HH head. (Informet 2002: p. 14).

⁵⁰ Peru National Household Survey (ENAH) 1997-2001. Since headship often indicates the presence or absence of the male spouse (Informet 2002 and others), the data may suggest that the proportion of female-headed HH may be higher due to family dissolution or that men life expectancy may be lower causing early widowhood among women.

⁵¹ The average life expectancy for Peruvian men and women in 2000 was 67 and 72 years of age, respectively (GenderStats 2002).

⁵² See Informet, "Study on the Effects of Titling on the Development of Women" [in Spanish], 2002. From a sample of 120 female beneficiaries, 12% were formally married and 40% who were in consensual unions or *concubinato* (term used in the study).

economic survival strategy. In addition, establishing a relationship with a partner already installed in another settlement may be a strategy to access secure housing. In the later case, the property often remained under joint ownership in the names of the original spouses. According to the study, associated economic costs precluded the regularization of changes in household structure, given the precarious nature of family economies (Informet 2002: p. 13). In light of the above discussion, the SA identified areas for further research, including:

- Effect of changes in the household structure (abandonment, separation, divorce, and widowhood) on the market use of co-ownership title (for women and men);
- Socio-cultural norms and economic constraints to regularizing changes in the ownership of marital property assets; and establishing secure inheritance rights among siblings; and
- Socio-cultural norms and practices related to the transfer of property through inheritance, transactions costs of regularizing inheritance rights of family members (perhaps from multiple families), and the socio-economic effect of the informal generational transfer of property. This is particularly relevant since most of the founding members of the households, who acquired secure property rights through formalization, were approaching the end of their life cycles.

Female-headed households are among poorest.⁵³ While the majority of sampled households were poor, 2004 survey data revealed dramatic differences between female and male heads of households. As shown below, 63.9% of female-headed households were poor, and 29.6% were extremely poor, in comparison to 59.3% and 23.4% of male-headed households, respectively. Likewise, 21.8% of female-headed households were moderately poor (integrated households) in comparison to 30.5% of male-headed households.

Table 2.3: Percent of households in poverty by male/female headship, 2004

	Male	Female	Mean
HH in poverty	59.3	63.9	60.5
HH in extreme poverty	23.4	29.6	24.9
Integrated HH	30.5	21.8	28.3
Total	2083	679	2762

Source: 2004 Survey

Literacy and schooling attainment of household head. While poor men and women alike are less educated and less literate than their non-poor counterparts, survey data revealed significant differences *within* the sampled target population, in particular between men and women household heads. In the 2004 survey, 17.1% of female household heads were illiterate, in comparison to 3.2% of male household heads.⁵⁴ Likewise, women had less years of schooling than men. In fact, the mean years of schooling for women in the sampled population (5.6 years) was much *lower* than the

⁵³ The analysis of the 2004 Survey, by contrast with the 2002 Survey, reported variances between female and male-headed households. To supplement the results of the 2004 survey, the consulting firm conducted male/female-only focus groups: 28 men and 20 women (included wives as co-owners) in Human Settlements. Additional insights on women's views came from a study of 120 female beneficiaries in Lima, co-owners and single-owners (Informet 2002). The study examined the socioeconomic profile of female beneficiaries and explored the impact of formalization on women and their households, including gender relations at the community and household level.

⁵⁴ The illiteracy rate of men in the sample population was much *lower* than the national aggregate statistic of 6.1%; the illiteracy rate of women in the sample population was similar to the national aggregate statistic of 17.9% (ENAH0-1997-2001).

national mean of 8.3 years.⁵⁵ Over the past 20 years, adult illiteracy rate has declined for men and women as well as the youth illiteracy rate (GenderStats, World Bank) and the educational gaps between men and women have been decreasing over time.

Nevertheless, the cumulative effects of education inequalities between the poor and the non-poor, and between men and women, remains a structural barrier that constrain the poor's ability to access economic opportunities, including those provided by secure property rights. Lack of education may also affect their learning capacity and thus their ability to benefit from traditional capacity-building programs. As the data suggests, the constraints are more acute for poor women, in particular for female head of households (Informet, 2002: p. 14). This affects the Project in several ways, for example, differences in schooling attainment and literacy rates may affect the ability of the poor men and women, in particular the older generation of women, to understand the information provided by COFOPRI during field visits and to participate in decision-making during property formalization (cadastre surveys and ownership verification).

Table 2.4: Characteristics of household by male/female headship, 2004

	Male	Female	Mean
Family resides in house since	1983	1980	1982
Number of HH residents	5.2	4.6	5.1
Age of HH head	53.1	55.9	53.8
HH head years of schooling	8.5	5.6	7.8
Percent HH head illiteracy rate	3.2	17.1	6.3

Source: 2004 Survey

Employment and monthly earnings. On average, the percentage of head of households employed in the formal sector remained the same during 2000-2004, however employment on a short-term contract basis increased, which implies less benefits. Percentage of households with secondary jobs declined dramatically, from 19.0% in 2000 to 7.1%, reflecting the overall lack of employment opportunities in the formal labor sector. In turn, household dependence on income from independent work in the formal sector increased, from 57.0% in 2000 to 61.5% in 2004. The average monthly earnings of households in the target population was approximately US\$305 (S/.1052).⁵⁶

Significant disparities were observed between the earnings of male and female heads of household, US \$317 (S/1089) compared to US \$271 (S/935), respectively. While only 7.0% of male heads of households reported having a secondary job, the income from such secondary jobs contributed to nearly 35% of total household income. A slightly higher percentage of female heads of households reported having a secondary job (9.0%), which contributed 29.0% to total household income. Gender differences may be partly explained by the fact that women earn less than men in the informal sector and on average earn only 60.0% of what men earn in the formal sector.⁵⁷ Among female heads of household, less education and sole responsibility of childcare may further limit opportunity and access to higher paying jobs in the formal sector. In addition, the average number of residents in male-headed households was 5.2 compared to 4.6 for female-headed households (see

⁵⁵ Mean years of schooling for men in the sample population was 8.5 years, which was similar to national mean of 8.9 years (ENAO 1997-2001).

⁵⁶ Of the total working-age population over 13 years of age, 66.0% were engaged in some form of work. Of that group, 17.0% were unpaid. (Trivelli, C., Chapter 9 in G. Hall and H. A. Patrinos, "Indigenous People, Poverty and Human Development in Latin America: 1994-2004")

⁵⁷ Trivelli, C., Chapter 9 in G. Hall and H. A. Patrinos, "Indigenous People, Poverty and Human Development in Latin America: 1994-2004".

Table 2.4) which gives the former type of household/family structure greater access to income secured by other household members.

Table 2.5: Formal sector employment and income by male/female headship, 2004⁵⁸

	Male	Female	Mean
Percent HH head employed	76.0	54.0	70.0
<u>Status of employed HH head (% of those that work)</u>			
HH head employed on a temporary contract basis	58.0	42.0	56.0
HH head employed with indefinite contract	36.0	23.0	34.0
HH head working independently	60.0	70.0	62.0
HH head with a secondary job	7.0	9.0	7.0
Monthly salary of HH head (S/)	735	491	689
Monthly income from secondary job (S/)	375	273	350
Monthly family income (S/)	1089	935	1052

Source: 2004 Survey

Economic use of formalized properties. The percentage of households using their property for economic purposes declined between 2000 and 2004; however, the income generated from such activity increased significantly for most sampled households. According to the surveys, in 2000 an average of 24.0% of households reported using their property for economic activity, which generated an average monthly income of US\$81 (S/.280). In contrast, in 2004 only 16.0% of households reported using their property for economic activity, but the average monthly income generated from such activity increased to approximately US\$120 (S/.414). Important differences were observed between households, according to the type of document. Among households with a municipal title, many of which have been regularized by COFOPRI, monthly income generated from home-based activity increased from US\$81 (S/.282) in 2000 to US\$115 (S/.397) in 2004. Likewise, among households who had purchased their land parcel, again many of which had been regularized by COFOPRI, monthly income generated from home-based activity increased from US\$97 (S/.335) in 2000 to US\$233 (S/.804) in 2004. Among households with male headship, most home-based activity is undertaken by the respective spouse and other family members.

Table 2.6: Home-based economic activity by male/female headship, 2004

	Male	Female	Mean
Convenience store (<i>tienda</i>)	56.3	67.3	58.9
Food sale	8.3	9.3	8.5
Repair shop	10.1	1.9	8.1
Internet cabinet	5.5	5.6	5.5
Garment/textile/seamstress/tailoring	5.2	7.5	5.8
Carpentry	5.2	0.9	4.2
Electronic repair shop	2.1	3.7	2.5
Metal shop	1.8	0.0	1.4
Shoe production	1.2	0.9	1.2
Arts and craft shop	1.2	0.0	0.9
Beauty salon	0.9	90.0	0.9
Others	5.5	1.9	4.5

Source: Baseline Survey, 2004

⁵⁸ Employment and income data as reported by the Baseline Survey Report made it difficult to distinguish whether independent work and secondary jobs were within the formal or informal sectors.

The urban poor value the legal security provided by property formalization. Focus groups carried out as part of the 2004 survey, showed that, above all, the urban poor valued the *ownership status* that formalization had provided. Men and women alike talked about the security and peace of mind that came with formalization. The survey found that households that perceived the highest level of legal security were those with COFOPRI titles (92.6% in 2004). Yet the same households were not able to distinguish between a “registered” title and a non-registered one. Such households may lack a broader understanding of what formalization had entailed (legal-physical regularization, registration of property rights, and issuance of title) and thus may not perceive the full implication of secure property rights. This lack of awareness may also diminish the perceived benefit of formalization (e.g. in terms of property values). In addition, nearly half of the households that lacked documentary evidence of ownership manifested a relatively comfortable level of security (43.8% in 2004). To understand this finding, it is important to keep in mind that COFOPRI formalized property rights of families who, on average, had resided in their respective settlements for approximately two decades. In the case of Human Settlements, these communities had been through an initial phase of squatting on unimproved land with no basic services, intermediate stages of physical and legal consolidation (self-help efforts and political struggles for land rights), and concluding stages of urban consolidation (although still as mostly poor communities).

Therefore, during the process of self-help consolidation, communities acquired social acceptance and *de facto* security; which in turn may explain what the numbers appear to suggest—an intermediate yet progressive increase in perceived security, where formalization provided the highest level of security.⁵⁹ A sense of security was also established for those who acquired their land through transactions in the informal real estate market (purchase-sale contracts) or through Government housing programs. Nevertheless, as the participatory research has confirmed, formalized property titles have an intrinsic and high symbolic value: access to a property title was an indisputable confirmation that the personal sacrifice and hardship poor migrant families had endured over the past decades had finally been recognized. The formalized population perceived their homes as a place of security and social cohesion, rather than just an economic asset. As such, property titles were associated with recognition of full citizenship, converting formalization policies into a powerful instrument for social inclusion.

Table 2.7: Perception of Legal Security by Document Type, 2000-2004

Type of Document	Year	Perception of Legal Security (%)		
		Secure	Insecure	Does not know
COFOPRI title	2000	94.0	5.0	1.0
	2004	92.6	5.5	1.9
Municipal title	2000	87.0	13.0	0.0
	2004	89.0	8.4	2.6
Purchase-sale contract	2000	78.0	22.0	0.0
	2004	85.8	12.9	1.3
Other documents	2000	47.0	27.0	2.0
	2004	43.8	23.6	6.9
No documents	2000	47.0	46.0	7.0
	2004	43.8	43.0	13.2
Total	2000	81.0	18.0	1.0

⁵⁹ Other UPRP studies suggested the expected benefits of massive formalization might be underestimated since an important percentage of the formalized population had some proof of ownership (although informal) upon formalization. The views of households without property documents may have been influenced by the expectation of formalization. The economic downturn of 1997-2000 may have also constrained the potential economic impact of formalization.

	2004	85.1	11.4	3.5
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Source: Baseline Survey, 2000 and 2004

In terms of property values, surveyed households felt that the market value of their property had declined since 2000.⁶⁰ However, the data may reflect underreporting or “misreporting” among surveyed households. For example, among households that received a COFOPRI title, the response for “yes a lot” dropped significantly from 40.5% in 2000 to 29.7% in 2004. However, the response for “yes somewhat” and “yes a little” increased significantly as well. In fact, as suggested in the 2004 survey report, households appeared to hold back their true response because they felt that the survey was collecting data for tax purposes or that the Government was trying to circuitously determine whether they had more than one property. The results of the 2004 survey’s focus groups provided some support to these observations: the responses of men and women revealed a deep distrust of the Government. Participants perceived that the Government was unconcerned about the lives of the poor and their taxes did not result in improved services for low-income families (Baseline Report: 2004, p. 38).

In general, the findings suggest that most surveyed households did not distinguish between the benefits and the legal validity of a duly registered property title (COFOPRI title) from those of other (potentially non-regularized) property documents (a municipal title, a purchase-sale contract, a document provided by the Association of Homeowners of a particular settlement, among others).⁶¹ In spite of recent investments by the UPRP to promote the benefits of secure property rights, the findings of the Baseline Survey clearly suggest that further investments must be made.

Table 2.8: Has access to a property certificate or title increased the value of your property?

	Cofopri Title		Municipal Title		Purchase-Sale contract		Other		Mean	
	2000	2004	2000	2004	2000	2004	2000	2004	2000	2004
Yes, a lot	40.5	29.7	29.4	24.2	18.4	23.8	11.4	12.9	24.8	23.6
Yes, somewhat	26.8	30.1	27.3	24.9	26.8	21.9	17.5	21.1	24.2	25.9
Yes, a little	8.6	20.1	17.7	20.0	30.6	15.8	15.3	15.8	17.0	19.3
No	14.2	7.5	15.4	12.6	14.1	19.1	41.1	19.1	22.6	11.8
Don't know	9.9	12.6	10.2	18.3	10.1	31.1	14.7	31.1	11.4	19.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Baseline Survey, 2000 and 2004

Formalization data may facilitate access to public and private services and infrastructure.

Survey data observed that access increased somewhat or remained basically the same (depending on the type of service), although households with property documents had better access to public services than those without any proof of tenure. As depicted in the table below, households reported that access to potable water, sanitation infrastructure, electricity, and telephone improved upon issuance of property documents (31.3%, 35.7%, 27.2%, and 73.1%, respectively). Between 2000 and 2004, sanitation services increased significantly for all households regardless of tenure status from 74.0% in 2000 to 92.3% in 2004, including households without property documents. Improvements were also observed in access to electricity and telephone services for sampled households (with or without property documents), although to a greater extent for formalized households.

⁶⁰ For a detailed exploration of the increased value of immovable properties attributed to formalization, see Annex 9.

⁶¹ Several studies commissioned by COFOPRI including Apoyo Consultoría (2003) reached a similar conclusion. While titling increased the market value of property, for the time being, the formalized population may not fully recognize the economic benefits (see Annex 9). The recent decentralization process may also partially explain survey results.

Yet the numbers provide only a partial understanding of the effect of formalization on the delivery of public and private services. Service providers (in particular, electricity) reported that they prioritized areas that had been formalized by COFOPRI. Formalization may have contributed to the design of service provision plans since the information collected and maps produced during formalization helped identify settlements and assess potential users of services. This was supported in focus groups where community residents observed that providers of electricity services approached the settlement soon after formalization (Focus group, Baseline Survey 2004). Overall the findings suggest that while access to basic services appears to improve to a greater extent for households with property documents (regardless of the legal security of such document), the policies that guide the delivery of services respond to broader social development goals and are influenced by the investment plans of service providers. However, the data also suggests that formalization may improve the probability of access if service providers use formalization data to inform investment plans.

The results of the Baseline Survey suggest that the social and economic effects of property formalization may be augmented in several ways. In particular, there is an enormous but largely untapped potential for the use of the physical-legal and socioeconomic data collected by COFOPRI. The proposed Project must actively disseminate the potential use of formalization data to promote and facilitate the delivery and coverage of public and private services, in particular for less consolidated and perhaps more isolated settlements. In addition, further research must be undertaken to determine how the Project can best contribute to increasing the economic impact of secure property rights. For example, the Project requires a greater understanding of the real estate markets in marginal urban areas in order to identify the measures required to encourage, develop, and facilitate property exchange and real estate investment. To improve credit promotion strategies, further research must be undertaken to understand the characteristics and the needs of informal enterprises within the formalized population and the constraints to growth.

Understanding the multiethnic and multilingual dimension of the target population. Between 2000 and 2004, formalization activities advanced considerably into geographical regions outside of Lima, including into the regions identified above as the most poor. The increase of formalization activity in the *Costa Norte* has been dramatic. As shown below, formalization activity has increased there by nearly 53%, followed by a 33% in the *Sierra Centro*.⁶² Yet as formalization advanced into these regions, cultural and language gaps became more apparent and, in some areas, delayed the achievement of production targets. To address the language gap and increase efficiency, COFOPRI implemented bilingual information-dissemination community meetings and tapped into the resources of local and community-level interpreters. The effectiveness of these proactive actions, however, may be constrained by the lack of clear organizational guidelines to ensure the effectiveness of bilingual communication.

Table 2.9: Type of property document by geographical urban domain, 2000-2004

Document held prior to formalization (%)	Year	Lima	Costa Norte	Sierra Centro	Sierra Sur	Selva	Mean
Cofopri title	2000	38.5	15.2	0.5	70.6	6.4	20.8
	2004	53.0	68.1	33.3	81.3	27.1	55.3
Municipal title	2000	22.1	39.6	28.0	6.9	67.9	32.1
	2004	22.9	24.3	17.9	15.6	65.7	24.1

⁶² Survey data may not capture the magnitude of COFOPRI's formalization activities, as the sample focused on the eight informal urban areas originally defined by the UPRP. Due to increased demand and organizational capacity, coverage was expanded to six additional urban areas (Ayacucho, Ica, Junin, Moquegua, Tacna, and Ucayali).

Purchase contract	2000	3.2	4.4	48.5	16.9	3.6	14.4
	2004	7.8	6.5	24.7	60.0	15.7	10.9
Other document	2000	32.1	35.4	21.2	5.6	18.6	28.8
	2004	18.1	9.1	38.6	5.0	9.3	17.7
No document	2000	4.1	5.5	1.8	0.0	3.6	3.9
	2004	7.5	0.0	0.0	0.0	0.0	2.0

Source: 2000 and 2004 Surveys

Note: "Other document" refers to community-issued certificates of possession or adjudication

In focus groups conducted by the SA, the facilitators and trainers of the registration campaign and credit promotion program recounted their experiences and in that process of dialogue and self-evaluation, the topic of inter-culturalism surfaced frequently. For example, facilitators recognized that future campaigns to promote a culture of registration in Ayacucho (highland) must take into account the cultural vision of its people, language differences, education and poverty levels, and the general attitude toward the official State system, including the effects of previous relationships and interactions with governmental apparatus. Likewise, the following action proposals emerged from discussions with facilitators of the credit promotion workshops and will be applied by the Project: (a) develop bilingual materials based on an understanding of the cultural vision of the communities and the gender-differentiated daily challenges they face in their entrepreneurial projects; (b) diversify the codes of communication, simplify technical jargon, and use the vocabulary of the community; and (c) build trainer capacity to use visual and interactive methods to promote learning among illiterate or semi-literate men and women.

Apply an inter-cultural approach to Project implementation. While the Project does not target indigenous people *per se*, the above discussion underscores the importance of applying an inter-cultural approach to Project implementation, one that recognizes the multiethnic and multilingual background of households within the target population and the associated dynamics and challenges of inclusion. Moreover, as the Project is expected to work in peri-urban areas such as Cusco and Puno where a significant population of indigenous descent is present, further research will be undertaken to better understand the multiethnic dimension of the target population and improve the effectiveness of Project activities.⁶³

3. Community Participation and Property Formalization

The community plays an integral role in the property formalization process. A recent policy analysis of property reforms in Peru recognized and confirmed the importance of the information campaigns and citizen engagement strategies implemented by COFOPRI-UPRP, especially in terms of moving property reforms forward effectively and efficiently.⁶⁴ The proposed Project will continue to promote the active involvement of the community within the context of a new national formalization strategy. The SA reviewed the formalization process, placing emphasis on the role of communities. Second, it identified and analyzed problem areas and concluded with specific recommendations to strengthen community participation and promote gender equity and social inclusion in the formalization process.

⁶³ According to a Bank study, between 25 to 48% of Peruvian households can be considered of indigenous culture: the lower limit corresponds to households in which the household head/spouse used an indigenous language (Quechua, Aymara or a native language of the Amazonian region) more frequently than Spanish; the upper limit identifies all Peruvian households in which the household head/spouse have parents or grandfathers that had an indigenous mother tongue. For a full review of the data on poverty and indigenous people in Peru, see Trivelli, C., Chapter 9 in G. Hall and H. A. Patrinos, "Indigenous People, Poverty and Human Development in Latin America: 1994-2004".

⁶⁴ Terradigm 2004: p. 19

Overview of community involvement during the formalization process. To formalize property on a massive, rapid, and cost-effective manner, COFOPRI developed an efficient system with three distinct phases. As COFOPRI responds to the new decentralization context and enters areas with complex tenure issues and with dispersed communities, large-scale systematic campaigns may no longer be suitable.⁶⁵ The Project will provide technical assistance to refine the current formalization system to respond to remnant formalization demand in a cost-effective manner. The basic elements of the system, however, will remain including community participation, as discussed below.⁶⁶

Diagnosis and strategic planning. Process 0 gathered data on informality in targeted areas (through analysis of existing databases followed by a site visit) and identified key legal and technical obstacles to property formalization.⁶⁷ The results helped determine formalization demand, segment demand by type of informal property, and develop strategies to address the specific problems of each jurisdiction, including potential land-related conflicts within the settlements. This information also provided inputs to design a strategy for community involvement and organize the work of COFOPRI field promoters. Hence, the interaction with the community during Process 0 was minimal. To the extent possible, COFOPRI promoters set the groundwork for field activity and established preliminary contact with community governance structures.⁶⁸ Actions to mobilize and organize community support for formalization were intensified progressively as the formalization campaign advanced.

Integral site formalization. Process 1 conducted a legal-physical analysis of the area and comprised two levels of intervention: (a) delineation of the boundaries of settlement; and (b) delineation of blocks and individual parcels. In determining settlement boundaries, a legal analysis was conducted to identify potential pre-existing rights of the State or a third party and potential limitations to urban land use. To develop an accurate physical description, the settlement was geo-referenced through field surveys, and layout and plot mapping.⁶⁹ Second, neighborhood blocks and individual plots

⁶⁵ As of November 2004, with the passage of Law No. 28391, the Provincial Commissions for Formalization were dissolved and the Provincial Municipalities have the sole responsibility to conduct formalization in a decentralized manner. The law requires that the Municipalities plan, organize, coordinate and execute the formalization process. However, COFORPI, in their new role as a technical advisory body will provide permanent legal and technical assistance to Provincial Municipalities through inter-institutional agreements. For the most part, it is expected that COFOPRI will continue to play a prominent role since most municipalities lack the necessary capacity to undertake the formalization process. COFOPRI, with support from the Project, plans to develop a training program to transfer technical knowledge and build municipal capacity.

⁶⁶ Project documents for the UPRP (1998), a case study prepared for the Shanghai Conference (2004) by F. Cantuarias and M. Delgado describe the participation of urban landholders and community leaders. For further detail, see *“Regularization process at the Saul Cantoral Settlement: A case study”* (1999) by Zoila Z. Yi Yang. Interviews with COFOPRI staff (September 2004) provided additional insights.

⁶⁷ A particular district may comprise several dozens of informal (squatter) settlements, each of which may contain, for example, 40 blocks of housing and 1000 families. An area targeted during a formalization campaign could cover 50 to 70 settlements or 35,000 land parcels. The average duration of such a campaign was 45 days and the cost per title ranged from US\$50 to US\$100, depending on the physical-legal complexities (COFOPRI). Before the process could take between 3 to 10 years and cost up to US\$2,156, nearly 5 times the minimum salary of poor households (Yang 1999).

⁶⁸ Community promoters have extensive practical experience in community development. Many were former community leaders or had been promoters for other social programs.

⁶⁹ Settlements on archeological zones or areas highly prone to natural disasters (e.g. floods) were transferred to a specialized team that coordinated the respective investigations with INC and INDECI. These agencies determined whether COFOPRI could proceed with formalization and what safeguards the community or the municipality must put in place. Similarly, disputed claims were handled by a specialized team.

were surveyed and a parcel map was produced. RPU (now RP) verified and registered the perimeter and parcel map. During settlement and individual plot delineation:

- Neighborhood assemblies/councils were organized and COFOPRI promoters: (a) explained and promoted the advantages of formal ownership; (b) described the formalization process and how the community should be involved; and (c) reviewed the documents families needed to provide to establish eligibility. The community elected representatives to coordinate formalization activities with COFOPRI.⁷⁰
- Designated neighborhood representatives and landholders provided information about the areas in their possession, the land-related problems they faced, the maps they had, and the number of families that resided in the community. In addition, some residents helped measure and delineate the settlement and individual parcels, and identified areas set aside for communal use, which were marked with physical signals to help prevent invasions. Final decisions concerning the site were taken in coordination with community leaders and were recorded in public minutes that were discussed and approved in community assemblies.

Individual titling/registration. Process 2 formalized ownership rights to individual parcels, which required the active participation of community residents. By contrast with Process 1, the attendance of community residents during assemblies was much higher. During Process 2, COFOPRI promoters revisited the information provided during Process 1, but this time with a wider and much more interested audience:

- Community promoters worked with neighborhood leaders to organize public assemblies to discuss and validate the information collected and analyzed thus far and address community concerns. COFOPRI also thoroughly reviewed the type of evidence families needed to verify possession or ownership.⁷¹
- Field brigades, alongside community leaders, conducted a house-to-house census to verify occupancy and identify owners, and collected and verified proof of possession or ownership documents. Data on owners and parcels was processed and entered into a database. During this activity, community promoters accompanied the technical field brigade, if they were not conducting informational sessions in other settlements.
- Maps of the community and a list of eligible property owners were pre-published and posted in central locations within the neighborhood. The list was discussed and occupancy was verified in community assemblies before title issuance. A short period was allotted so that the community could review the list and raise complaints or objections.⁷² Process 2

⁷⁰ Legislative Decree 803 and Law 27046 regulate the *Asamblea Informativa* (Informational Assembly). Regulations also exist for the *empadronamiento* (census of landholders) and other similar field activities.

⁷¹ Two types of evidence were required: a personal identity document (DNI) and possession or ownership documents. For ownership and possession, accepted evidence included those used by the community, for example: public utility bills, possession documents, loan contracts for dwelling improvements, and the community's census. Decree Laws 495 and 496 provided for the acceptance of customary proofs of ownership in the definition of property rights.

⁷² A legal team inspected and verified the documents provided by the landholders to ensure that such documents satisfied all legal requirements. If possessors/owners occupied private property, COFOPRI explained the situation to the respective community and promoted conciliation between private owners and settlers. A specialized conciliation team worked proactively and creatively to resolve individual and community level property conflicts in a transparent and neutral manner. Conciliators received training on conciliation techniques including methods to correct power imbalances between parties. COFOPRI

concluded with a valid registered title (in the case of Human Settlements) or a regularized contract of sale (in the case of Popular Urbanizations and Housing Cooperatives), both duly registered in RPU (now RP).

As the above discussion illustrated, COFOPRI created a field methodology that combined participation mechanisms with on-the-ground data collection, thereby structuring community involvement as an integral element of the formalization process. The formalization system also created inter-disciplinary teams comprising social promoters, in addition to lawyers, engineers, and architects. To summarize, community involvement during property formalization was essential because it:

- Ensured that the formalization team understood the specific land-related problems the community faced;
- Improved the efficiency of document collection by introducing grassroots local knowledge into the surveying process and occupancy verification;
- Ensured that the newly registered property rights reflected the social consensus of communities;⁷³ and
- Promoted community satisfaction with formalization outcomes.

The SA also recognized the proactive stance taken by COFOPRI. New communication methods were implemented during the formalization process to respond to new demands. For example, since the national formalization program included a heterogeneous set of properties and communities, COFOPRI adjusted the content of the messages to reflect the cultural particularities of each region and district. Consensus-building approaches were adapted to work with communities that lacked a coherent internal governance structure. In addition, COFOPRI opened information offices to receive new requests from informal settlements (to incorporate them in subsequent campaigns) and answer specific questions about the formalization process. In spite of the strength of this proactive approach, the SA identified several shortcomings and recommended that the Project broaden the objective of community participation, improve strategies, and develop new methodologies.

Conceptualize community participation in property formalization in broader terms.

Community participation was conceptualized as means to a specific end: the production of clear and secure property titles. The overriding objective of the information campaigns was to provide the community the information it needed to participate in the formalization process. The strategy focused less on creating citizen ownership of the concepts and systems developed. For example, the campaigns over-emphasized the role of COFOPRI in the formalization process and placed minimal attention on the role of RPU and the importance of a registered title (Morris *et al* 2004). Overall, the information campaigns underestimated the knowledge needs of the urban poor and their capacity to absorb and understand complex property rights issues. Similarly, participation mechanisms were designed as tools to: (a) implement an on-the-ground approach to ownership verification and facilitate the collection of property information; (b) support the development of a normative framework that was grounded in an understanding of informal local practices and customs; and (c) garner community support and promote public legitimacy. While the objectives that guided communication strategies were valid and the participatory mechanisms used were clearly necessary for cost-effective formalization, they proved to be insufficient. Many of the studies carried out by the UPRP project, including the Baseline Survey, captured the unintended

developed and institutionalized appropriate safeguard procedures, including community meetings to discuss and ratify conciliation agreements.

⁷³ See, McLaughlin, John and Palmer, David in "Integrated Land Administration: Institutional and Technical Challenges", 1997, p. 12.

effect of the approach, especially in terms of citizen awareness. While COFOPRI promoters used their extensive knowledge to mobilize the urban poor, they recognized the limitations placed by the formalization system, especially in terms of citizen awareness and community education.⁷⁴

Part of the problem may be explained by the fact that the property formalization process was originally designed with a limited understanding of the theoretical framework of social communication and community participation. Moreover, certain factors may have inadvertently obscured the linkages between citizen awareness and participation and the larger policy goal of increasing the security of property rights:

- Strong political pressure to rapidly produce tangible results (the registered title) at a low cost and a policy environment where the legitimacy and competency of COFOPRI was measured primarily by quantifiable outputs;
- An almost exclusive focus on integrating a critical mass of *properties* into the formal market without sufficient focus on a critical mass of *people* with new ownership rights, empowered to make informed decisions about their properties;
- Organizational incentives that rewarded managers according to the number of titles produced within certain time parameters and at reduced costs (i.e. production targets); and
- Communication policies that focused on formalization and property reform “messages” and marginalized or underestimated the information needs of the beneficiary population.

These institutional and organizational factors responded to a specific policy approach. On the political side, a focus on delivering a significant number of regularized titles helped legitimize the NFP and COFOPRI, which in turn, maintained the critical commitment of the Government, facilitated the inter-institutional coordination required for data collection, and promoted the participation of informal settlements. On the economic side, the Government envisioned that a formalization program implemented in an “integral, comprehensive, and rapid” manner would integrate a critical mass of formalized properties into the formal economy, which would activate the real estate market and generate interest from the financial sector.⁷⁵ The policy approach was perhaps a successful one; nevertheless, this Project provides a unique opportunity to improve how COFOPRI and participating Provincial Municipalities conceptualize the involvement of communities in the formalization process.

Information strategies must respond to the diverse needs the urban poor. A study conducted to evaluate the effectiveness of the methods used to inform the community and promote community participation identified several methodological gaps. For example, some community residents felt that the presentations delivered by COFOPRI were too brief or delivered in a manner that was too technical and difficult to understand.⁷⁶ Another study observed that some families were afraid to ask questions during the public assemblies organized by COFOPRI, and others did not fully understand the information distributed through pamphlets or provided by COFOPRI during community assemblies.⁷⁷ Attendance at neighborhood assemblies and the community’s involvement during Process 1 was varied and irregular. The studies, however, also revealed that people reached out to their own community and family networks to clarify the information provided by COFOPRI. This finding is relevant for the proposed Project because it provides insights into how poor communities validate external information and develop knowledge.

⁷⁴ “The formalization process sometimes is too fast and does not give us enough time to educate people properly” (Focus group COFOPRI promoters, September 2004).

⁷⁵ Based on SA interviews. Also see, Morris *et al* 2004: p. 108

⁷⁶ Apoyo Communications (1999 and 2000)

⁷⁷ See, Desco, “Study on the Registration Culture”, 2001, p. 31.

In some cases, as reported by COFOPRI promoters, the “off-putting” manner of the technical field team frustrated residents, especially during Process 1 (site and parcel surveying). While the Field Operation Unit reported that such complaints were infrequent, the potential cultural-communication gap highlighted several issues. First, the community clearly established and important level of trust with COFOPRI field promoters, the first point of contact, who communicated with ordinary citizens in a manner they could easily understand. However, COFOPRI promoters cannot possibly be present at all times during the fieldwork and hiring more field promoters is an inefficient solution. Instead, the Project should work toward developing partnerships at the local and community-level to reinforce the work of formalization promoters. Second, the technical field team (legal verifiers and surveyors) may require training to improve their ability to communicate effectively with the urban poor during the formalization process in a manner that promotes trust and improves productivity.

Knowledge gaps between men and women. Several studies conducted by the UPRP revealed significant information and knowledge gaps among the beneficiary population. While informational gaps were observed among all households in general, women seemed to be even less aware than men. Women, and in particular older women, had limited understanding about their newly formalized property rights. However, women who had received single-owner titles (female heads of household) were more aware than their married counterparts with joint/co-owner titles. Similarly, women who had held community leadership roles were more aware than women who had not. While low levels of educational attainment among poor households may affect their ability to understand the information provided by COFOPRI during field visits, the problem appears more acute among poor women.

Awareness of the concepts and systems developed. While the legal security and peace of mind derived from formal property rights was widely recognized by households, they may not necessarily understand that formalized property titles may open up other opportunities to improve individual and family welfare. Doubts also remained about the long-term validity of titles issued by COFOPRI and the role of local governments under the new decentralized property formalization framework.⁷⁸ Will COFOPRI titles be valid once a new government comes into power? In addition, households who possessed a document prior to formalization (e.g. municipal title) and received a COFOPRI title wondered whether both documents coexisted.⁷⁹ Some thought that both titles were valid but COFOPRI titles were “more valid”. Similarly, formalized households, in particular the poorest, did not realize that their property titles were registered in the public registry. Those that were aware were unable to articulate the benefits of property registration, even if they believed that registration provided “more security”.

⁷⁸ The concern about the long-term validity of COFOPRI-issued titles may relate to perceptions about the political-institutional culture in general, where an incoming administration reverses or invalidates the work of the outgoing one (i.e. policy discontinuity). The population’s confusion about the role of local government coincided with the views of policy makers whom recognized that overlaps and lack of clarity about municipal governments in formalization and property information management affected the security of property rights (March 2004 stakeholder workshop). The proposed Project will support the clarification and streamlining of organizational mandates, which will also provide a better basis to promote a culture of registration.

⁷⁹ According to the Baseline Survey (2000), 51% of the sampled population had some type of ownership/possession proof, prior to formalization (e.g. municipal titles, contract of purchase). However, many of these documents were technically and legally deficient or were not registered and, therefore, were regularized as part of the NFP. In such cases, the landholder received a certificate of rectification and registration along with their original document.

Formalization under the proposed Project will evaluate the effectiveness of communication methods and determine how such methods and strategies need to be modified to take into account different education and literacy levels within the beneficiary population. Language and cultural barriers will also be taken into account, especially in areas where the population may be primarily monolingual. Communication during formalization will aim to reduce the knowledge gaps between men and women, tap into local and community-level resources, and increase citizen awareness and ownership of concepts and systems developed.

Gender differentiated access to community-level decision-making structures. COFOPRI worked primarily through the informal settlement's governance structure or the neighborhood organization/association and, to some extent, with functional organizations dedicated primarily to survival issues such as health and nutrition.⁸⁰

- The neighborhood organization (such as the *Comité de Promoción y Desarrollo, Asociación de Pobladores*) is the local structure responsible for settlement consolidation from the legal perspective (municipal recognition and titling) as well as the physical perspective (provision of basic services and infrastructure). Prior to formalization, it was the most common vehicle for internal land acquisition and distribution and land-related conflict resolution. Men usually dominated this form of organization and participation in decision-making process was usually guided by a one-property-one-vote rule.
- The functional organizations organized primarily as a survival strategy for the provision of subsistence for poor families but also included the cultural organization of the community. These included *Comedores Populares* (community kitchens), *Comités de Vasos de Leche*, Mothers Club, Parent Associations, among others. Organizations related to family welfare, were led and serviced by women.

From a technical perspective, one could argue that the formalization process should be articulated through the neighborhood organization. However, such an approach may reinforce traditional social norms about property as the male domain and result in inequitable access to the information provided by COFOPRI.⁸¹ More importantly, such an approach does not build on the vital roles women and men play in understanding and managing the land and housing problems that exist in informal urban settings. While the participation of women as organizational leaders appears to be increasing, especially in Lima, women in general may not have a real voice in the decision-making process and, as a result, may be excluded from decisions that are made in *asambleas vecinales*. For example, a UPRP study observed that although women may have attended neighborhood councils in high numbers, they generally did not participate in decision-making.⁸²

Likewise, some COFOPRI promoters observed that while women were physically present at the informational sessions, they tended to participate less in decision-making.⁸³ Given the traditional participation of men in these organizations, men probably have more skills and experience than women do in conveying their concerns to COFOPRI field staff. In addition, the internal organizational dynamics of informal settlements and the legitimacy that local leaders enjoy within the community vary from settlement to settlement. Hence, those who have less bargaining power

⁸⁰ This general overview has been documented in numerous publications external to the Project.

⁸¹ A study undertaken by the UPRP found that people who assumed leadership roles within the community were much better informed about the process of formalization than those that did not. See Desco 2001: p. 59

⁸² Informet, 2002: p. 48-49.

⁸³ Focus group with COFOPRI community/field promoters, September 2004.

within the community (including disadvantaged men) may not be able to participate in community decisions or have access to the information provided by COFOPRI.⁸⁴

Recognizing that some community members (men and women) did not always voice their concerns, field promoters learned to anticipate their questions. For example, during the informational assemblies, COFOPRI promoters raised issues that were particularly sensitive for the community and generally not discussed in public forums: property rights in informal marriages, abandonment, separation and divorce.⁸⁵ The effectiveness of the informational sessions, however, depended to some extent on the manner in which the promoters conducted them, which varied from promoter to promoter. Some used participatory techniques and engaged the community in an interactive dialogue while others delivered the information in a more rigid manner. To facilitate the outreach process, some community promoters developed an informal social map of community organizations to reach out to community leaders during the different phases of the formalization campaign. Strategies were also developed to reach community residents when the internal governance structure of a community was divided or conflict-ridden. Nevertheless, the methods may not take into account that women often have a small political presence on community councils and some communities may perceive public meetings as male spaces. These institutional barriers for women will be considered during the formalization process to better mobilize local and community-level support, which will also contribute to the sustainability of property rights.⁸⁶

The principles and procedures for recording joint or individual ownership rights for women need to be strengthened. COFOPRI has established a recording system that promotes gender equality in property rights. In households where couples are formally married, joint titling is mandatory and the formalization brigade records both names on the title. Couples in consensual unions (*unión de hecho* or informal marriages) were titled as co-owners, if they successfully established that they had been together for at least two years.⁸⁷ In households where it is clear that one of the spouses (primarily the male spouse) had abandoned the household, a single-owner title is issued to the de-facto single head of household (primarily women).

The property formalization system implemented by COFOPRI reflected a clear and significant departure from the traditional practice of titling the male head of household. By putting in place a system of norms and standardized procedures, COFOPRI helped ensure that the rights of both women and men were protected in the titling and registration process. As of September 2004, performance indicators of the UPRP showed that 48% of the titles were issued to men and 52% to women. The breakdown in terms of co-owner and single-owner titles appears below.

Table 3.1: Distribution of titles between men and women

⁸⁴ The limited decision making capacity of women in local governance structures was confirmed by the fact that *after* the legal rights of women to property have been formally established, opportunities to participate in local governance increased (Informet 2002). This is indeed a positive impact of property formalization; however, the issue here is the capacity of women to participate *during* the formalization process.

⁸⁵ Community residents (men and women) frequently approached COFOPRI after the town-hall meetings/assemblies to ask questions about topics they were not comfortable discussing in a public gathering. Recurrent topics included: abandonment, separation/divorce, informal marriages, and “second” families (e.g. men who had left their wives/children and had established a new family). (Focus group with COFOPRI promoters, September 2004).

⁸⁶ The transformation of gender roles are reflected in UNDP human development indices where, among others, women’s access to leadership roles is understood to be tied to an increase in their opportunities for “being and doing” (Sen 1993).

⁸⁷ As provided in the Civil Code (Art. 326). Most couples in informal marriages were established families with young or older children.

Ownership type	Percent of property titles issued
Co-owner (joint)	61.0 ⁸⁸
Single owner	39.0
	<ul style="list-style-type: none"> ▪ % Women: 66.79 ▪ % Men: 33.21

Source: CIP/COFOPRI, September 2004

Socialized gender norms may influence the interpretation and application of formalization standards. A study conducted in 2002, however, revealed potential inconsistencies in the application of norms and standards related to de-facto female head of households.⁸⁹ The study identified cases where women were “formally married” on paper but were clearly *de facto* head of households. Prior to formalization, these women had been living with their children for a number of years and their former spouses had already established new families and where living elsewhere. However, the formalization process granted them joint ownership and the only recourse these women had was to object the joint title in the judicial system, an option that was most likely beyond their means. Cases such as this demonstrate that gender training and continuous monitoring and evaluation is needed to ensure the effectiveness of operational policies that aim to promote equal access to property rights. Although the SA could not determine the scope of the problem, the Project will implement proactive measures to analyze and implement solutions to overcome implicit or explicit discrimination in property formalization.

The purpose and benefits of joint property ownership must be actively promoted. Neither men nor women fully understood the benefits of joint ownership. In fact, some men believed that their respective spouses had secondary rights rather than *equal* rights. Given the socialization of gender roles and the unequal status of women in Peru, the SA was not surprised to discover that some women expected and accepted “lesser” rights because that was “how it should be”.⁹⁰ To address this issue, the Project will explore ways to promote gender equity in ownership rights, especially in terms of conjugal land, whether resulting from formal marriages or consensual unions. On the other hand, the formal recognition of property rights empowered some women to participate in decisions related to property.⁹¹

Service providers also showed a partial understanding of the importance of joint ownership rights and women’s rights to property, which may affect the manner in which they communicate the benefits of joint ownership to Project beneficiaries. Interviews with service providers revealed a range of perspectives. Some felt that property formalization was gender neutral because property was formalized based on possession and ownership evidence, regardless of the landholder’s personal characteristics. Others stated that ownership rights were important for women because informal marriages, separation, and abandonment were common social phenomena.⁹² In general, service providers did not have the specialized training or the instruments (including organizational directives) to incorporate social and gender issues into their work, a matter that capacity building activities financed under the proposed Project should address.

Integrating an Empowerment Perspective in the Property Formalization

⁸⁸ Co-owner titles were issued to married couples (formal or informal), but could also include two adult siblings.

⁸⁹ “*Estudio sobre la dinámica de los asentamientos humanos*”, SASE 2002: p. 31.

⁹⁰ Informet 2002: p.35

⁹¹ Translated excerpts from Informet 2002: p. 34-35

⁹² Interviews with service providers, September 2004

Staff at the front-line of service delivery have demonstrated a deep level of commitment for improving the lives of the poor. Formalization brigades perceived themselves not only as promoters and technicians, but also as community educators and advocates of the poor. The Project subcomponent A.1 will build on this organizational strength; however, the Project's challenge in term of property formalization is clear: *how to reach households and individuals in a timely and cost-effective manner but with a greater degree of responsiveness and community empowerment*. The formalization process itself must be viewed as opportunity to build capacity within communities on issues related to property rights. Cost-effective information and communication strategies that are gender-aware and culturally sensitive can contribute to such an objective. To this end, the Project will provide technical assistance to design and implement an improved strategy to:

- Build capacity and promote the participation of both men and women, so that they can better serve as advocates for property rights issues of concern to them, their families, and their communities;
- Strengthen the capacity of community promoters and the formalization brigade in general to do their job more effectively; and
- Build partnerships with grassroots and community-based organizations and local NGOs to increase local ownership of property rights issues and support the work of Participating Municipalities and COFOPRI.

Communication strategies that promote community empowerment and equitable participation. The Project will provide the theoretical framework and the practical tools to effectively evaluate and respond to the social dynamics of settlements, implement communication strategies to reach diverse groups, develop educational messages using appropriate language on topics such as the benefits of formalization and property registration and the advantages of joint titling. Communication strategies for formalization will go beyond simply disseminating information and “selling” the benefits of property formalization. Instead, the strategy will promote community empowerment and social inclusion and will seek to lay the foundation for “post-formalization” educational campaigns and capacity-building workshops (i.e. registration culture and credit promotion).

The Project will build on COFOPRI's extensive experience working with informal communities and the formalized sector. COFOPRI and Participating Municipalities will participate in the analysis and adaptation of communication and participation strategies. This will ensure that the Project builds on current strengths, benefits from the tremendous insight and expertise COFOPRI has developed overtime, taps into local knowledge, and creates organizational ownership for change. The Project will provide technical assistance to develop appropriate tools such as social mapping, rapid community appraisals, and diversity and gender analysis, among others. Action-research methods will be supported to better understand how informal settlements access and validate information (e.g. social and family networks, the role of gatekeepers) and how knowledge is developed. Specific attention will be placed on the different ways that men and women access information and how socio-cultural and economic factors facilitate or constrain access. The Operational Manual will include a chapter on social issues to provide guidance on the use of interpreters in bilingual assemblies and the design of community outreach and information-dissemination strategies to promote equitable access to information and participation in decision-making, among others. The Project will also develop an evaluation strategy that periodically monitors the effectiveness of the communication approach. The evaluation strategy will include indicators that capture the views of service providers, grassroots and community organizations, and community leaders (men and women).

A clear organizational strategy on gender and property formalization. Communication strategies will be linked to an organizational gender strategy to promote equitable access to secure property rights. To start the process, the Project will analyze formalization procedures and performance indicators from a gender perspective. Service providers will participate actively in this process, providing inputs based on their practical experiences to enrich the analysis, but more importantly, to build awareness and ownership. Organizational factors that may constrain the implementation of a gender strategy will also be assessed. Based on these inputs, an operational gender strategy will be developed.

Capacity-building program for formalization brigades. A training program will be designed to strengthen the capacity of the formalization brigade to put into practice new communication methods and strategies. A participatory needs assessment will be carried out to identify key gaps in the capacity of service providers. Capacity building activities will build on current strengths, reinforce current knowledge, breakdown stereotypes, and introduce new skills. Themes to develop include, among others: community participation and empowerment, language/cultural sensitivity training, gender issues in the property formalization process, and conflict resolution.⁹³ The Project will also increase awareness among services provides about the benefits of joint titling.⁹⁴ To strengthen institutional awareness on the importance of property rights for the poor, periodic organizational workshops will take place to disseminate and discuss findings on the socioeconomic impact of property formalization. Training will be provided to COFOPRI as well as municipal staff that participate in the formalization process. Care will be taken so that training activities are not implemented in an ad-hoc fashion; but rather, as part of a wider institutional and municipal capacity-building program.

Improve access to customer service units and implement user surveys. COFOPRI opened information offices to receive new request from informal settlements (to incorporate them in subsequent campaigns) and answer specific questions about the formalization process. In a random survey of 5,442 users conducted in December 2003, 88.95% of those surveyed reported that COFOPRI's service was "very good" or "good" and 92.44% said that COFOPRI provides services in a timely manner.⁹⁵ However, access to COFOPRI customer service offices can be improved significantly. As reported during the SA, the *Gerencia de Campo* has tried to improve access and respond to the enormous demand for information by implementing itinerant customer service units thereby bringing the information closer to the people. However, because of lack of resources and competing institutional priorities, the concept of itinerant teams was eventually dropped. Under the proposed Project, the SA recommends that the concept be revisited and incorporated in the delivery of new formalization services. In addition, customer service offices are uniquely positioned to collect baseline data on the population's perspective on quality of services and assess knowledge gaps among the population. COFOPRI developed a system to track user satisfaction at the customer service offices. The Project will improve the system to make it an effective management tool to improve service delivery.

Build partnerships with local government, NGOs, and community based organizations. Partnerships will be developed to support the work of the Provincial and District Municipalities and COFOPRI where needed. The Project will tap into community and local resources to raise

⁹³ The politics of local governance had previously affected the work of field promoters and technical staff. Conflict resolution and training on consensus building at the local and community level will help work through some of the resistance and power plays encountered at the local level.

⁹⁴ The Project will have access to gender training materials prepared for other land projects, including the training program developed by the Panama Land Administration Project (PRONAT) with FAO and Bank assistance.

⁹⁵ Reported in COFOPRI's organizational publication (*Cofopri al día*), December 2003.

awareness on property rights, and work with local governments to improve community participation during the formalization process. Since the Project will be implemented in a decentralized policy context, the Project will periodically scan the environment to identify new opportunities to engage in dialogue on property rights issues at the local or community-level.

4. Citizen Awareness and Community Education: Keeping Property Rights within the Formal Economy

The sustainability of formalization reforms depends in part on the extent that formalized households can realize tangible benefits such as improved access to public services, credit or business development opportunities. Likewise, keeping formalized properties in the formal market depends on the willingness and ability of formalized population to record changes in the characteristics of the formalized properties and register subsequent property transactions such as sales, inheritances, and mortgages. However, the formalized population may not change their attitudes and practices unless they are able to perceive and realize clear benefits of conducting property transactions in a “formal” environment. Therefore, without the support of the community, it will be difficult to maintain newly formalized properties within the formal economy.

Knowledge gaps constrain the potential use of property rights and further disadvantage poor households. How do households view their newly formalized property rights? How do families plan to use their formalized properties? What types of property transactions do they plan to undertake in the near or long-term future? What are the most common attitudes and behaviors about property registration? To gain insights on these issues and develop a deeper understanding of the constraints to property transaction, as perceived and experienced by the urban poor, the UPRP carried out several studies.⁹⁶ A common theme emerged across all the studies: the formalized population did not have the sufficient information and knowledge to make future decisions concerning their property. The studies revealed incipient or partial understanding about the significance of a duly registered property title, the purpose and benefits of registering transactions, how and where to register, the type of transactions that need to be registered, and the potential risks of non-registration. Some households perceived that property registration protected the interests of the Government and not theirs.⁹⁷ Socioeconomic status had an effect on property-related knowledge—the higher the status of study respondents the more knowledge (although still partial) about property transactions. Differences were observed between men and women’s awareness and knowledge of property rights issues; women, as compared to men, appeared to know less.

⁹⁶ The qualitative analysis by Desco (*Study on the Registration Culture*, 2001) provided deeper insights on the perceptions and experiences of the urban poor on property issues. Fifteen focus groups were carried out: 7 in Arequipa and 8 in Lima (72 women and 43 men in total). In addition, 31 in-depth interviews were conducted with key informants from the community and the private sector: 17 in Arequipa and 14 in Lima (9 women and 22 men). See also, ICOM (2002) “*Integral Evaluation for the Communication Campaign to Promote a Registration Culture: Summary Report and Reports for the Cities of Lima, Ayacucho, and Trujillo*” [in Spanish]. The study confirmed the findings of the Baseline Survey (2000) and the Desco study; in addition, it established baseline conditions for the registration culture campaign and helped develop key communication “messages” for such campaign.

⁹⁷ The unification of property registries (initiated under the UPRP) represented a major step towards addressing some of the constraints to property registration. In particular, the unification of RPI and RPU (to RP) addressed a major source of confusion among the formalized population: Why two property registries? Was one for the poor and the other for the rich? Was one for properties with lesser value? Even the financial sector perceived RPU as a registry for the poor (Desco, 2001). While the unification of property registries contributed to the promotion of a “culture of registration” significant access issues remain, which will be addressed by the Project.

In terms of access to credit, studies showed that formalized property owners lack the appropriate information required to make appropriate decisions regarding credit and, in general, had a limited understanding of credit options that might be within their reach. Households who wanted to explore credit options (whether in the near or distant future) were unclear on how to access the information they needed. Even households that had received credit lacked a full understanding of the conditions of the loan and their rights and obligations (Descro 2001; Informet 2002). Even more worrisome was the suggestion that some households had fallen victims to the unfair practices of some lenders. This underscores the fact that credit may not be enough to break out poverty. Knowledge about credit management and self-empowerment may be key elements as well. To address information and knowledge gaps within the formalized population, the UPRP designed and implemented two communication initiatives that will continue under the proposed Project; however, several critical changes will be made to improve their effectiveness. An overview of each of the initiatives is provided prior to specifying the proposed changes.

Registration culture campaign: Changing attitudes and practices related to property registration. COFOPRI and SUNARP worked together to implement a communication campaign to promote a *culture of registration* among the formalized population. The objective of the campaign was to inform and educate the formalized population on the benefits of formality and the importance of registering changes or modifications in property rights. The campaign was carried out in 14 cities and implemented in two phases: December 2002 to May 2003 and then again in December 2003 to about May 2004. To implement the campaign, the UPRP trained 535 staff from SUNARP and COFOPRI, at central and local-level offices. The campaign's approach to communication, underpinned by key design principles, largely explained its relative success: an explicit behavior change approach to communication; communication messages grounded in research; a strategy that combined the traditional mass media approach with advocacy and community-based interventions; and the integration of a monitoring and evaluation component.

The registration culture campaign represented a completely different way of interacting with the formalized population, for both COFOPRI and SUNARP. The attitudinal and behavioral change approach was radically different from the information dissemination approach of COFOPRI and SUNARP. The information and educational messages of the campaign were designed with an understanding of the knowledge barriers that constrained the "formalization" of subsequent property transactions and were structured around the following themes: (a) the benefits and relevance of a regularized and duly registered property rights; (b) why property changes that occur after formalization should be registered and the risks associated with non-registration; (c) what subsequent transactions (*segundos actos*) should be registered; and (d) where such transactions should be registered.⁹⁸ The campaign comprised three strategic and mutually reinforcing components:

- *Advocacy* to build alliances between COFOPRI-SUNARP and institutional actors at the local and national level who could be effective and legitimate "message carriers";⁹⁹
- *Mass media communication* to disseminate educational messages at the national and local level using radio and print media that targeted socioeconomic levels C, D and E;¹⁰⁰ and

⁹⁸ This was much more complicated than expected for the following reasons: incipient knowledge of RPU; limited or non-existent knowledge about the integration of RPU and RPI and the establishment of RP within SUNARP; limited knowledge of SUNARP; confusion between SUNARP and SUNAT (National Superintendency of Tax Administration); misunderstanding of COFOPRI's functions (perceived by some as a registration entity); and general confusion about entities in charge of property valuation, property taxation, and property registration (in addition to confusion about such concepts).

⁹⁹ For example, congressional representatives, the media (national and local level), local government, and various interests groups concerned with property rights and related urban development issues.

- *Community-based communication* to engage the formalized population in their own communities and at the inter-personal level.

To gauge the effectiveness of communication methods and to monitor changes in knowledge, attitudes, and behavior, the design of the campaign included an evaluation element at the outset. An external firm established baseline conditions for Lima, Arequipa, and Trujillo (June 2002), prior to start of the campaign. The same firm reapplied the survey in the same cities in August 2003 to measure changes in the population sample. In addition, the UPRP carried out smaller surveys to monitor community-based interventions and held periodic self-assessment workshops.

Baseline indicators showed promising results that confirmed the validity of a behavior change approach. More importantly, the results demonstrated that people's perceptions and attitudes about property registration could change, which in turn, contributes to sustainability of property reforms. The comparative survey of 1,315 people in 2003 showed significant improvements in people's knowledge about property registration and the type of transactions that needed to be registered. In 2002, 35.0% of survey respondents stated that they did *not* recognize any benefits to property registration; however, in 2003, this figure dropped to 23.0%. Likewise, in 2002, 50.9% of survey respondents were unaware of the potential risks of not registering subsequent property transactions (*segundos actos*). In 2003, this figure dropped dramatically to 29.1%. Attitudes about property registration improved as well.

Interventions at the community-level were the most effective aspects of the campaign. An education-entertainment approach (*divertir para educar*) was applied in 12 registration fairs (*ferias registrales*) that were held in Lima Metropolitan (north, southern and eastern cones), Iquitos, Chiclayo, Trujillo, Arequipa, Piura, and Chiclayo. A total of 28,080 newly formalized property owners and their households participated in the registration fairs, of which nearly 60.0% were women.¹⁰¹ The fairs incorporated tools such as popular theater, interactive learning games, and informational kiosks.¹⁰² In addition, group educational sessions were held at community-based organizations and in municipal establishments. The sessions used adult-education principles and participatory facilitation and discussion topics were grounded in the real life experiences of the participants. Written materials were distributed so that participants could share the information with their families and wider kinship and social networks. In total, 480 educational sessions were carried out in 13 cities with 19,200 participants. Key alliances were developed with municipalities during the campaign; however, both COFOPRI and SUNARP's follow-up has been weak. To improve the mass media strategy, the Project will: (a) focus on local and community radio stations; (b) use programming formats and language that is more accessible to the formalized sector, in particular the poorest (socioeconomic levels D and E); and (c) conduct further research to identify ways to use radio and other media more effectively (e.g. segmentation, targeted messages, and partnerships with ongoing and established radio programs that target the poor).

¹⁰⁰ Given that radio has proven to be an effective communication medium in Peru, eight short radio programs/spots were developed which focused on key educational messages.

¹⁰¹ This surpassed the expected attendance: 14,000 total averaging 2000 per fair. In Arequipa alone, 5000 people attended the fair, followed by Trujillo (3000), Iquitos and Cono Norte Lima (2500), and the remaining cities at 1500 to 1000.

¹⁰² Thirty-eight popular theater modules were carried out which brought together approximately 7,720 participants.

CREDICRECE: Helping property owners make informed decisions about credit.¹⁰³

COFOPRI developed a capacity-building pilot program known as CREDICRECE that aimed to create *informed* demand for credit services among Project beneficiaries. Expected results were: (a) increased awareness about the benefits of formalization; (b) increased ability to analyze the benefits and risks of credit; and (c) increased ability to distinguish the different types of credit options that are available. CREDICRECE operates through a series of training workshops, which target micro and small enterprises whose property was formalized by COFOPRI. CREDICRECE teams bring together experienced facilitators (micro-finance specialists and adult education specialists). In partnership with community based organizations and community leaders, COFOPRI field promoters identify workshop participants and local venues.¹⁰⁴ The program uses participatory adult-education techniques and materials (dramatization, real-life case studies, video and educational games) to build knowledge about rights and obligations of consumers and debtors, potential risks of credit and strategies to manage these risks including debt repayment practices, types of credit products available, and strategies to improve creditworthiness. Continuous monitoring has been built into the pilot program and as a result, the methodology has been improved and can be easily adapted to the local context of each geographical area (e.g. literacy rates, household time constraints, and language).

During the pilot period, CREDICRECE was carried out in two phases benefiting a total of 13,146 Project beneficiaries. The first phase was carried out over a period of 7 months between September 2002 and March 2003 and consisted of 140 workshops in Metropolitan Lima. Nearly 4000 micro entrepreneurs formalized by COFOPRI participated in the workshops, of which 57.7% were women. Fifty-five percent (55.0%) of the participants were between the ages of 25-45 and 87.5% were active in the informal economy.¹⁰⁵ Participants responded favorably to the workshops and requested follow-up training. Building on the lessons learned from the first phase, a second phase of CREDICRECE was launched between September 2003 and June 2004 in Lima, and in the provincial cities of Arequipa, Trujillo, Chiclayo, Tacna, Ica, Huancayo and Piura. A total of 177 training workshops were carried out in which 9,146 Project beneficiaries participated, of which 63.0% were women. After attending a CREDICRECE workshop, participants reported a 16-12.5% increase in knowledge levels.¹⁰⁶

To develop links with the financial sector, microfinance institutions were invited to participate and share information on the type of services they offer. This did not work as well as expected primarily because the manner in which the information was presented was “too technical” and did not take into account the educational differences of the participants. Nevertheless, at the time of UPRP closing, six information-sharing agreements had been signed between COFOPRI and financial entities.¹⁰⁷

¹⁰³ This section draws on the findings of two evaluation reports corresponding to two phases of implementation: September 2002-May 2002 and September 2003-June 2004. Additional insights were gained through interviews with CREDICRECE facilitators.

¹⁰⁴ While all workshops take place after work hours, the exact times are adjusted to reflect the realities of a particular community or region.

¹⁰⁵ Data collected by CREDICRECE include: sex, age and education levels of participants; type and size of enterprises; previous credit experience; and changes in level of knowledge among participants.

¹⁰⁶ Pre and exit workshop surveys asked participants to identify types of formal credit, define repayment practices, and qualify their willingness to seek credit, among others. Survey data could be disaggregated by sex of participant, age, reported education, city/region, and type of enterprise.

¹⁰⁷ Information-sharing agreements were signed with the *Caja Municipal de Ahorro y Crédito de Trujillo*, EDPYME PRONEGOCIOS, Banco Wiese de Ica, *Instituto de Desarrollo del Sector Informal de Lambayeque* (IDESI), and *Instituto de Investigación y Promoción Regional* (IPR). COFOPRI agrees to share the

Improving the Delivery of Communication and Education Services

Credit Promotion

Develop a clear institutional approach to credit promotion. The success of CREDICRECE was constrained by the lack of a clear institutional policy on credit promotion. Despite the positive feedback received by the financial sector, CREDICRECE facilitators report that ensuring the participation of the financial sector in CREDICRECE was a difficult task. Outreach can significantly be improved if COFOPRI adopts an institutional approach to financial sector outreach, rather than individual strategies for each CREDICRECE training workshop. To that end, COFOPRI will develop under the proposed Project a clear institutional strategy to support bottom-up initiatives such as CREDICRECE. Specific recommendations include: (a) link CREDICRECE to complementary initiatives such as the *Central de Información Positiva* (see below); and (b) develop a social map of the potential institutional partners and develop partnerships to scale up CREDICRECE and ensure sustainable outreach and education for the poor. NGOs that focus on micro credit, that link up access to credit to productive activities, and that target poor women seem to be particularly interested in working with COFOPRI.

Formally integrate new roles and responsibilities for COFOPRI's Field Operations Unit. COFOPRI's *Gerencia de Campo* (Field Operations Unit) has played a critical role in the implementation of the credit culture campaign (as well as the registration campaign). However, post-formalization tasks such as property registration and credit promotion place new demands on the same resources, and consequently, was perceived as add-on assignment that should be carried out only if it does not interfere with the formalization process (production of formal property titles). These new roles and responsibilities will be formally integrated into the objectives and personnel profiles of COFOPRI.

Establish clear links between CREDICRECE and CIP. To capitalize on the enormous amount of data (socio-economic and geographical) produced through systematic titling and registration, COFOPRI developed an information system known as the *Central de Información Positiva* (CIP). The specific objective of CIP is to promote access to credit by reducing costs incurred by micro-finance institutions and commercial banks in determining the creditworthiness of potential borrowers within the formalized sector. If COFOPRI is to realize the full potential of CIP, emphasis should be placed on improving CIP in close consultation with potential clients to ensure that CIP is user-focused, demand driven and appropriately priced and delivered. To facilitate the participation of NGOs who deliver micro-credit services and to improve the participation of the financial sector in CREDICRECE, mechanisms will be established to facilitate access to CIP by financial institutions that participate in CREDICRECE.

Develop partnerships to implement CREDICRECE. Credit promotion strategies have to be developed in partnership with other groups. The institutional strategy should include clear mechanisms to engage the resources of community organizations, and develop partnerships with NGOs working actively with the urban poor. Together these activities should help scale up CREDICRECE and eliminate duplication of efforts, build upon existing delivery points (e.g. literacy and rights awareness community programs) and capitalize on existing social sector skills to expedite the demand side development of the microfinance sector. The Project will develop a methodology to transfer the technology of CREDICRECE to Provincial Municipalities,

CREDICRECE database with these entities, and in turn, they agree to provide COFOPRI with information on CREDICRECE participants who have sought information and/or received credit.

microfinance institutions and other local groups. Tools such as training of trainers should be an integral element of the technology transfer methodologies. A referral system needs to be developed for households and property owners who “graduate” from CREDICRECE but require additional capacity building.

Adapt methods and techniques to meet diverse needs of formalized entrepreneurs. Methods and techniques will be further adapted to meet the needs of the formalized sector, both in terms of language and content. For example, topics that were not considered at the outset have been incorporated in subsequent workshops such as basic organizational skills, conflict resolution within the household, and citizenship rights and issues. Multicultural, gender and diversity perspectives were also gradually introduced into CREDICRECE. However, such an approach needs to be established as an organizational policy and managed as an integral design element rather than left to the discretion of adult educators and facilitators. It is clear that, in terms of numbers, both women and men have participated in CREDICRECE; however, we have less information on how the content of the workshops meet the diverse needs of the population. To ensure equitable impact and to strengthen CREDICRECE’s pro-poor approach, further and systematic emphasis will be placed on understanding the diverse needs and gender-differentiated constraints of the target population. This is particularly relevant given the extensive work that has been done in Peru documenting the exclusionary and pervasive impact of gender, ethnicity, and geographic origin (among other social variables) on access to labor and credit markets, educational opportunities, productive social networks, and other types of economic and social opportunities.

Property Registration

Develop clear institutional policies to support the implementation of a registry culture program. Two key institutional lessons emerged from the implementation of the registry culture campaign. First, since external advocacy was not an institutional priority, advocacy strategies were implemented in a limited manner. To strengthen SUNARP’s external advocacy capacity, the Project must first build *internal* consensus on the objectives of the registry culture campaigns. Second, although internal champions had been identified, effective implementation of the registry campaign was constrained by clear institutional policies. To address these issues, the Project will help: (a) integrate the objectives of registration culture into SUNARP’s institutional mandate; (b) develop clear institutional policies and incentives that promote the participation of registry officials; and (c) strengthen the capacity of the *Oficina de Imagen Institucional y Relaciones Públicas* and the *Escuela de Capacitación Registral* so that they participate effectively in the promotion of a registration culture. In addition, for SUNARP to participate effectively in the registry culture program, it must substantially improve its capacity to communicate effectively with the target population. “Capacity” entails much more than technical expertise in property registration issues and includes understanding the specific barriers that poor households face, the ability to communicate effectively using accessible language, and service delivery attitudes that treat poor households with respect and dignity.

Develop a comprehensive strategic outreach strategy. Additional effort will be placed to reach poorer segments of the population. To that end, strategies will be developed to engage the participation of community and neighborhood leaders. The support of community groups and social networks is critical because it enables the most vulnerable to remain in a trusted environment. Similarly, to ensure that the formalized sector has access to registration information in a sustainable manner, partnerships will be established with professional associations (notaries and lawyers), local government, NGOs, and community based organizations such as *comedores populares* and

educational centers among others. Consensus building strategies need to be put in place to deal with potential conflicts. For example, in some places, it was difficult to conduct the *ferias registrales* because the local mayor did not have the support of its community and/or wanted to use the *feria registral* as a political tool.

Target women as potential allies in changing behaviors at the household and community level.

Differentiated methods will be developed to reach out to women property owners, whether individual or joint owners. Attention will be placed on identifying those information channels that are more effective in reaching women. This is particularly important since significant gender differences were observed during the implementation of the registry campaign. While women tend to be less informed than men, they are also the ones that show the most significant changes in knowledge and attitudes. This suggests that women, as group, may be critical allies in changing behaviors at the household and community level.

Develop content to meet the diverse needs of the population. Topics that will be developed further during the registration campaigns include the significance of joint ownership; subdivision and expansion of properties; and procedures and costs involved in the registration of property transactions. The content of the messages and the way they are delivered, however, should be based on the different needs of the population. For example, there are clear differences in awareness levels between consolidated and non-consolidated settlements and between older or younger segments of the population.

Provide targeted technical assistance to decentralized registry offices. Community leaders and municipalities have made several requests to decentralized registry offices to continue the educational sessions and *ferias registrales*. In fact, after the completion of the UPRP, the Arequipa registry office (*zona registral*) carried out four smaller scale registry fairs (*ferias registrales*) and has programmed weekly educational talks with the population. The *zona registral* of Iquitos has also carried out its own educational sessions with its own resources. The training materials provided by the UPRP have been adapted to meet local needs and to reflect local customs. Clearly, decentralized registry offices recognize the value and the potential impacts of educational strategies.

To respond to this demand, specific methodologies and tools will be developed to help decentralized registry offices integrate aspects of the campaign into their regular work practices. To ensure that resources are channeled appropriately, technical assistance to *zonas registrales* must be demand-driven. Performance agreements will be established where participating *zonas registrales* make clear contributions to the program (in terms of staff time and organizational resources). To promote institutional learning and build ownership, bi-yearly seminars will be implemented to bring together the participating *zonas registrales*.

5. Access to Registry Services

Registration procedures constrain equitable access to registry services. Additional procedures have been incorporated into property registration requirements that have led to a decline in property registrations among the formalized sector. In 1999, 58,000 property transactions had been recorded in RPU (now RP). Between 1999 and 2000, the number of property registrations grew by 64.0%; between 2000 and 2001, by 26%. However, between 2001 and 2002, the increase was less than 1.0%.¹⁰⁸ This coincided with recent changes in the normative framework that narrowed the scope for the use of simplified registry forms and reintroduced mandatory notary certification. These measures significantly increased transactions costs for users and clearly affected access to registry

¹⁰⁸ Reported in Comparative Base Line Study, Final Report, ESAN-IMASEN, 2004.

services by the poor. Similarly, registration procedures have reintroduced tax payment controls. In sum, transactions costs (perceived or real) associated with the registration of property transactions continue to be a major obstacle for the sustainability of formalization reforms.

Institutional cultural barriers constrain the delivery of pro-poor registration services. During the pilot implementation of the Registry Culture Campaign, important cultural differences were detected between the former RPU and RPI. There is a lack of awareness and misunderstanding on the property formalization process financed under the UPRP, in which RPU was an integral player. For example, while RPI staff recognized that the simplified administrative mechanisms developed by RPU were effective; for the most part, however, they believed that these mechanisms lacked legal security. Similarly, they believed that RPU lacked the appropriate quality controls necessary to protect property rights. Finally, in general, RPI staff appeared to be skeptical of the proactive stance taken by RPU, as if proactively reaching out to registry users influenced the neutral role of a registration officer. These underlying perceptions may affect the ability of RP and SUNARP in general to effectively and proactively identify and respond to the specific needs of poor users. Ultimately, such an institutional culture, if not transformed, may undermine the effectiveness of community education programs.

Promoting the Delivery of Pro-Poor Registry Services

Promotion of a registration culture will be closely linked to improvements in the delivery of registration services. Education on formal property rights and the importance of registering property transactions is necessary but not sufficient. Communication strategies that promote the registration of property transactions can only be effective if there are corresponding improvements in the quality and delivery of registration services. Studies will be carried out to determine the service needs of the formalized sector; the impact of mandatory notary certification and tax payment on property registration; and the current fee structure taking into account the sustainability of property rights reforms, the socio-economic profiles of users, and general financial sustainability issues. The Project will also support the design and implementation of customer service strategies and mechanisms that respond to the needs the formalized sector.

Performance monitoring tools as a catalyst for cultural change. Performance monitoring tools can improve the efficiency of registration services, however, more importantly; they can also help create incentives for cultural change. To that end, the Project will build SUNARP's capacity to implement a monitoring system similar to the one put in place under the UPRP. In addition to tracking time and costs of the registration of first title and subsequent transactions, RP should also develop indicators to monitor client satisfaction (disaggregated by client group). More importantly, the monitoring system will integrate indicators to monitor attitudinal and behavior changes in potential clients resulting from the registration culture programs. Gender disaggregated data must be collected and analyzed to determine how men and women use the registration system and whether they face different access constraints. The latter will have to be ascertained through client needs assessments implemented as part of, or in addition to, the registration culture program.

Training programs as a tool to promote changes in the organizational culture. The Project will work with RP's internal training/capacity-building school to develop training programs that focus on the role of property registration in a market economy, the compatibility of administrative simplification and legal security, and key social issues pertaining to property registration. Methodologies will integrate theoretical approaches as well as hands-on practical in-service training. SUNARP will encourage the participation of registrars in registry culture programs and field-level cadastre work (in collaboration with COFOPRI) will be viewed as critical educational opportunities to promote a proactive, user-centered registry culture.

6. Socioeconomic Monitoring and Evaluation

The Project will finance a Socioeconomic Monitoring subcomponent to: (a) measure the advances in project implementation, including socioeconomic impact; and (b) identify the obstacles that limit the use of property rights in the market, and to develop proposals to address these obstacles. This subcomponent is critical because it emphasizes the integral vision of formalization, where land titling is a policy measure that contributes to the larger goal of social and economic integration of the poor. To contribute more effectively to Project effectiveness, the following actions will be undertaken.

Develop a strategic and proactive communication strategy to disseminate the findings of the socioeconomic studies. The Project will develop a communication strategy that ensures that socioeconomic findings are disseminated, discussed and debated and ultimately, that they contribute to the policy making process. Moreover, the strategy should help mobilize public support for property rights reforms. The strategy will go beyond simply disseminating information, but rather, will focus on building understanding on the obstacles that limit the use of property rights in the market and related social and economic consequences. Without such a strategy, the full benefits of these efforts may not be realized.

Conduct further research to determine to what extent social factors affect the market use of property rights. Beneficiary assessments undertaken under the UPRP demonstrated that the ability of households to benefit from property formalization can be influenced by social factors such as: education; the degree of settlement and housing consolidation; the household structure (joint vs. individual headship and female headship); family stability; and access to family and social networks, among others. However, to get a better sense of the impact of these social factors on the use of property rights, further research is required, which in turn, would help better target educational services and other complementary programs.

Develop an understanding of gender inequalities in property rights. Further work needs to take place to identify, address, and reduce gender disparities in property rights. Two broad categories of issues will be explored: (a) gender differences in the market use of property rights (differentiated access to registry services, to credit, to mortgage-backed loans and differences in property values); and (b) the effect of changes in household structure (abandonment, separation, divorce and widowhood) on the market use of joint titles.

Analyze contingencies to identify potential solutions. According to one informant, contingencies were as high as 30.0% of total properties formalized. Contingencies are cases in which property titles cannot be issued because of a particular legal impediment. For example, eligible landholders may not be able to complete the formalization process because they do not have the necessary identification documents. Other contingencies were more complex issues such as informal settlements on private property or on geographical areas that were considered high-risk. In some of these cases, civil works were needed to lift the risk impediment.¹⁰⁹ However, the respective communities may not be able to contract out the civil works, but conceivably, partnerships with local governments and NGOs could be developed to overcome such barriers. Some contingencies may require additional reforms to the property formalization framework; however, reform proposals must be grounded in an understanding of the problem, the characteristics of the population affected, and an assessment of potential solutions.

¹⁰⁹ Interview with *Gerencia de Titulación*, September 2004

Explore the viability of other promotion and education programs. Promotion and educational programs may not be limited to registration and credit promotion. Interviews with front line service providers pointed to other needs that will be explored further, many of which may be addressed through partnerships with other stakeholders: (a) access to the national identification document, the lack of which excludes some families from access to property formalization; (b) capacity of the community to preserve and manage culturally-valuable sites; and (c) capacity of community to manage environmental concerns in urban spaces. This preliminary set of potential “new services” will be explored jointly with district and provincial municipal authorities to determine how best COFOPRI can contribute as a technical-advisory agency.

Action-research methods will be supported to better understand how informal settlements access and validate information (e.g. social and family networks, the role of gatekeepers) and how knowledge is developed. Specific attention will be placed on the different ways that men and women access information, how socio-cultural and economic factors facilitate or constrain access, and the different needs and local customs of the population. To implement the subcomponent, the Project will develop alliances with local NGOs specialized in social communication and adult literacy, among others. In addition, the Project will engage the participation of community and neighborhood leaders (men and women). The support of community groups and social networks is critical because it enables the most vulnerable to remain in a trusted environment.

The Project will also develop an evaluation strategy (including the use of participatory methodologies) that periodically monitors the effectiveness of the communication approach. The evaluation strategy will include indicators that capture the views of service providers, grassroots and community organizations, and community leaders (men and women).

Specific methodologies and tools will be developed to help decentralized registry offices integrate aspects of the registry culture campaign into their regular work practices. To promote institutional learning and build ownership, bi-yearly seminars will be implemented to bring together the participating *zonas registrales*. Similarly, to ensure that the formalized sector has access to registration information in a sustainable manner, partnerships will be established with professional associations (notaries and lawyers), local government, NGOs, and community based organizations such as *comedores populares* and educational centers.

Mechanisms to engage the resources of community organizations and develop partnerships with NGOs working actively with the urban poor will be developed. These activities will help reduce/eliminate duplication of efforts, build upon existing delivery points (e.g. literacy and rights awareness community programs) and capitalize on existing social sector skills to expedite the demand side development of the microfinance sector. A referral system will be developed for households and property owners who “graduate” from the credit program but require additional capacity building.

Annex 17: Communications Assessment

PERU REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

I. COFOPRI's Communication Challenges ¹¹⁰:

The proposed project main communication challenges will be: 1) Political: Leveraging the sustainability of COFOPRI; 2) Institutional: Building COFOPRI's institutional capacity for communication activities; and 3) Implementation: Improving the effectiveness and coverage of communications activities.

1) Political Challenges:

- **Weak Framework:** The general public is not well informed about the mission and vision of COFOPRI. To the extent that COFOPRI's achievements are disseminated only in policy-making circles, these have been appropriated and politicized.
- **Lack of Public Information Capacity:** COFOPRI's low profile makes it difficult for the institution to gain wider support among the public.
- **Limited Collaboration/Partnerships:** The lack of coordination with other GoP institutions with conflicting interests has made difficult for COFOPRI to develop collaborative relationships, even as the decentralization process makes knowledge transfer essential to COFOPRI's continuing success.

2) Institutional Challenges:

- **Limited Definition of Communication Activities:** Despite the acknowledged importance of communication activities for both the promotion of registration and access to credit, the UPRP did not assign enough priority and resources to communication activities. In addition to planning and implementation issues, budgets for communications activities seem to have been insufficient.
- **Missed Linkages in Messages and Framing of Issues - Limited Contextualization:** According to a UPRP social assessment report, only limited linkages were made and/or presented between the formalization process and the larger goal of poverty reduction and community empowerment. Since beneficiaries could not fully recognize the connection between project goals and larger social values, they might not have been motivated to improve knowledge, and change attitudes or behaviors.
- **Limited Institutional Attention to Monitoring and Evaluation Communication Activities:** The monitoring and evaluation effort faced serious limitations due to budgetary constraints and

¹¹⁰ This assessment is based on the findings and recommendations of a January-February 2005 mission that finished with the delivery of three reports on the subject: 1. "Communications Diagnostic – Peru Real Property Rights Consolidation Project", World Bank, February 2005. 2. "A Case Study: Use of communication campaigns in the Urban Property Rights Project in Peru", World Bank, February 2005. 3. "The Proposed Real Property Rights Consolidation Project in Peru: Communications Implications of a Case Study", World Bank, March 2005.

isolation from other components of the UPRP. The evaluation of communication activities could have also benefited from other evaluation activities within the same project (e.g. economic outcomes etc.) by allowing the inputs of different specialists (economists and financial specialists).

- **Lack of Institutional Information Failed to Increase Transparency and Accountability:** Beneficiaries were not fully informed about the institutional/project goals and achievements, neither about some of the changes of project targets and outcomes during implementation. Such institutional messages were seen as critical only for high-level stakeholders, (policy-makers, financial institutions) while it would have also been desirable that this information were provided to citizens/beneficiaries.

3) Implementation challenges:

- **Missing Relevant Information:** UPRP communication activities had serious shortcomings in terms of scope and concept. Provision of more detailed information was required to deepen beneficiaries' knowledge and direct them towards appropriate actions and beliefs.
- **Lack of Recognition of the Role of Promoters and Multiplier Effects:** There was limited coordination between the activities of field promoters, the communication unit, and village workers; there was no well-established conceptual or institutional communication framework shared by these units and groups.
- **Understanding Different Types of Beneficiaries and Assuring Inclusion:** It is always a challenge for communication activities to fill knowledge gaps among sub-groups of the target group because of different absorption capacities. As a result, certain groups (such as women and indigenous groups) may be at a disadvantage in terms of receiving communications concerning social programs and are consequently less likely to benefit from these.
- **Beyond Individuals -- Community Changes:** The UPRP communications target was limited to individuals. However, communication activities have to focus on the transformation of communities and extension of the shared benefits of formalization and access to credit to avoid conflicts and exclusion, as well as the generation of a critical mass of beneficiary stakeholders to sustain the knowledge and attitude changes effected.
- **Channel Selection and Effectiveness – Gaining Wider Coverage:** Irrespective of the effectiveness of inter-personal communication channels, these channels are very limited in coverage compared with multi-media channel usage.

II. Conclusions and recommendations:

2.1. Communications to obtain public support:

COFOPRI's communication office should improve its media relations, by cultivating key media outlets and persons. Additionally, periodic conferences/seminars with key specialists and potential opinion leaders in Peru on formalization issues may serve to showcase achievements and create influential multipliers of supportive opinions. Appropriate publications might serve to publicize COFOPRI's tasks and achievements to a wider audience.

2.2. Institutional Capacity-building for Communication Activities:

- 2.2.1. Up-front planning of communication activities: Communication activities need to be adequately defined and integrated within project goals and outcomes. Sufficient funds must be made available, including baseline and evaluation research.
- 2.2.2. Integrated monitoring and evaluation beyond communications activities: Evaluation of communication activities should be conducted within an integrated framework across project sub-components to appropriately measure the outcomes of communication inputs. Key indicators should be expanded to include indicators reflecting expected outcomes like behavioral/attitudinal changes, empowerment and awareness.
- 2.2.3. Institutional Messages for Accountability: The selected messages need to emphasize the larger significance of the property rights reforms and higher-level policy goals (securing property rights as a means of poverty reduction and access to economic opportunities). They should make clear to beneficiary-participants their rights and duties, and the opportunities generated by the changes in the legal and institutional framework that depend of their personal decisions. This requires that beneficiaries be fully informed about the institutional/project goals and achievements as well as any change made along the road.
- 2.2.4. Technical Assistance to Municipalities: COFOPRI will have to provide technical assistance to municipally organized communication campaigns to reach remote populations and encourage effective behavioral changes. Support in this area is likely to prove essential given that the 'residual' groups to be formalized by such municipalities are more likely to be poor and isolated in terms of access to information. Obviously, COFOPRI's strong internal capabilities in this area are a pre-requisite of effective provision of technical assistance.

2.3. Specific Communication Activities:

- 2.3.1. Empowerment and Behavioral Changes: Communication strategies should aim at greater empowerment of communities, as well as to increase and sustain the impact of Project-supported reforms, without leaving disadvantaged groups behind.
- 2.3.2. Sustainable communication initiatives: Communication campaigns will be required for both registration and credit promotion in the geographic areas already targeted in the first phase and in the new project areas. It is essential to provide information on the linkage between registration and access to credit, to allow beneficiaries to move from simply formalizing property rights to gaining access to formal credit and associated economic opportunities.
- 2.3.3. Framing messages contextualized within the broader socio-cultural beneficiary environment: Communication activities need to take into account the socio-cultural context of beneficiaries (both as individuals and communities) in order to enhance the potential for participation and the sustainability of the desired changes.
- 2.3.4. Making efficient use of existing resources as communication channels and potential multipliers: Effective communication activities require involving promoters and village workers through appropriate training, as well as seeking multiplier effects from satisfied beneficiaries and community leaders.
- 2.3.5. Understanding Different Types of Beneficiaries and Assuring Inclusion of

Disadvantaged Group: Communication activities must attempt to minimize knowledge gaps to avoid excluding groups of potential beneficiaries (gender and linguistic minorities). Thus, substantially higher unit costs for appropriate communication activities should be expected, as a result of having to provide bilingual materials, and tailoring the content of communications to the needs and beliefs of recipients. The integration of existing community-based organizations is also highly recommended.

- 2.3.6. Channel Selection for Wider Coverage: Interpersonal approaches might be supplemented with appropriate mass media channels used beyond immediate beneficiary targets.

Annex 18: The Urban Property Rights Project
PERU: REAL PROPERTY RIGHTS CONSOLIDATION PROJECT

1. Background.

The challenges of informality. Informality in Peru was the result of inadequate institutions and organizational arrangements in the areas of property rights and municipal development that generated constraints in the supply of affordable shelter options. Urban migration increased after the 1968 Agrarian Reform and radically altered the structure of major cities, turning Peru into a predominantly urban country. The formal rules were not designed to confront effectively the new realities. The system that was supposed to provide recognition of property rights was accessible only by a select minority. That system had complex and costly procedures to establish ownership that poor land occupants could not afford. National and local government agencies were not effective in issuing titles and the courts were not able to resolve conflicts, or validate titles. The poor responded by establishing informal human settlements. 1997 estimates found more than 3 million informal urban properties, representing “dormant” assets whose real value in terms of investment potential and access to credit was not being realized.

The excessive emphasis on legal security posed barriers to access to property rights. No property title could be recorded in RPI unless stringent requirements were met; such requirements were not designed to deal with massive invasions but only with individual transactions involving clear property titles (sales, grants, exchanges, inheritance, expropriation). These systems were not appropriate to deal with the informal origin of most property rights in Peru. Title regularization was conceived as an isolated, exceptional case and ignored the socio-economic reality in Peru that had experienced radical changes in land tenure patterns in rural and urban areas and demand for land and housing due to demographic variables, industrialization, improved transportation and communications, and expectations of higher living standards determined massive migrations into the cities.

GoP Approach. The process of developing an effective property formalization system started in the 1980's with a series of studies carried out by a private think tank, *Instituto Libertad y Democracia* (ILD). In 1988, a pilot project aimed at eliminating bottlenecks in the property titling process, begun with the establishment of RPU's predecessor.¹¹¹ During the 1990's, the Bank maintained a policy dialogue with the GoP and agreed to support a formalization plan comprising: (i) a new legal, regulatory and institutional framework that facilitated recognition of informal ownership; (ii) a proactive field campaign approach that involved the communities in the formalization process; (iii) an inexpensive information system based on a geo-referenced cadastre and simplified procedures; and (iv) effective autonomous agencies.

In 1996, *Ley de Promoción del Acceso a la Propiedad Formal* (Decree Law No. 803) was passed and launched the PNF to be implemented by COFOPRI. COFOPRI took over the functions of about 14 separate central and local entities that previously intervened in the titling process. Article 2 of Decree 803 created a new institutional mechanism allowing immovable property belonging to poor informal sectors to become a liquid asset with the potential to participate in market transactions. COFOPRI became solely responsible for issuing titles in informal settlements, while RPU would register the titles issued by COFOPRI. GoP allocated the highest priority to property formalization,

¹¹¹ Implementation Completion Report Urban Property Rights Project, December 27, 2004, p.3.

as a tool for social and economic development, within a market incentives framework (i.e. properties should be mobilized by the new owners at fair market value after formalization).

The Bank-financed UPRP was designed to support the PNF. The objective of the UPRP was to establish a system that provided real property rights in selected poor settlements in large urban areas. The UPRP expected that the formalization process would produce substantial economic and social benefits. The main benefit should be a more efficient market use of the property due to a greater security of property rights. This efficient market use would translate into higher property prices, more frequent transactions and increased ability of the urban poor to access credit for further economic and social development. To achieve these objectives, UPRP activities were structured around the following components: a) institutional reforms; b) organizational strengthening; and c) property formalization. The population targeted by the UPRP were classified in the 1993 Census as the poorest urban districts based on indicators of basic needs that reflected high deficiencies in terms of education, health, living conditions, adequate employment and basic services.

2. Project Components.

a. Institutional reforms

Legal and Regulatory Reforms. The property formalization process not only required a series of legal and regulatory reforms, but also the establishment and operation of modern State agencies, with appropriate procedures and practices. The purpose of such institutional reforms was to design cost-effective systems for property formalization, so as to allow “informal properties” and “informal owners” an easy access to property registration, as well as to the reliable information for subsequent transactions.

The UPRP led the change process for modernizing the institutional framework for property rights in Peru through: (a) creation of Provincial Formalization Commissions to decentralize formalization activities at the local level; and (b) unification of the parallel real property registry systems into a single RP under SUNARP. Several reforms were also advanced by the UPRP to streamline the formalization processes: (a) integration of survey data defining the spatial dimensions of a parcel with legal data defining the nature and basis of land rights; (b) standardization of data management; (c) introduction of a single parcel identifier; and (d) establishment of limitations to retrospective searches to prove title. Quality control mechanisms were also introduced to ensure the quality of registry information.

Conflict resolution mechanisms. To avoid that legal actions would be used as a mechanism to delay administrative proceedings, various levels of conflict resolution were established under the UPRP: (a) A conciliation system, applicable to informal settlements established on private property, aimed at reaching an agreement between the informal possessors and the private owner, for a legal transfer of property rights to take place, and a valid title to be issued. Such settlement was enforceable as a judicial or arbitral award; (b) An administrative review system. The *Tribunal Administrativo de la Propiedad* was established comprising prominent external legal experts, as an independent instance for conflict resolution through the final administrative review of the decisions issued by COFOPRI, so as to respect the two-instance principle and guarantee due process. The decisions of RPU could also be challenged before a separate unit (*Tribunal Registral*) and were similarly subject to judicial review.

b. Organizational Strengthening

Inter-institutional Coordination mechanisms. The UPRP financed: (a) the involvement of RPU in the registry unification process, so as to maintain efficiency gains (e.g. in terms of shared physical infrastructure and allocation of human resources); and (b) a re-engineering of internal processes within COFOPRI. COFOPRI developed new strategies to strengthen the capacity of municipalities in terms of the sustainability of geo-referenced cadastres, through the delivery of the graphic cadastral base developed by COFOPRI in the areas where the PNF had taken place and the training of the municipal staff in charge of maintaining that base up-to-date. COFOPRI begun coordination efforts with the IADB-financed PETT and strengthened its relationship with other public sector entities by providing formalization services through inter-institutional agreements.

Supreme Decree 005-2000 JUS created Provincial Formalization Commissions to involve local authorities, prioritize areas of operation and coordinate formalization activities. Under this model COFOPRI retained normative and supervisory functions in connection with the technical processes of formalization at the national level, while the Provincial Commission headed by the local Mayor defined specific priorities. To avoid the use of titling as instrument of political propaganda, title delivery in public ceremonies was forbidden. COFOPRI should have also transferred the cadastral base to the Municipalities, but this process was delayed because of the Municipalities' lack of institutional capacity. By devolving titling functions to municipal governments in 2000, the UPRP was ahead of the curve on decentralization and helped encourage forward movement in that area.

RPU: A modern agency accessible by the poor. The main features of the RPU model were simplified processes, integrated cadastre-registry services, and capacity to process massive volumes of information and provide such information at a low cost. RPU was designed as an institution that would balance effective legal security with reduced transaction costs, as opposed to RPI that in its eagerness to protect legal security generated unaffordable costs for the majority of the population. One of the key innovations introduced by RPU was the elimination of all requirements that do not constitute evidence of property rights (i.e. taxes or social security contributions).

In RPI recordable titles were only public deeds (*escrituras públicas*), whose drafting required the involvement of: (a) a lawyer that prepares a private document (*minuta*) based on a legal analysis of the rights involved; and (b) a notary public that reviews the lawyer's legal analysis, and (if acceptable) literally transcribes the *minuta* into special books authorized by the notaries association (*Colegio de Notarios*). By contrast, RPU accepted simple forms as recordable titles; the forms contained only the standard information required to determine property rights: identification of the real property, the parties to the contract and the rights that are the subject matter of the transaction. For the preparation of the forms only a lawyer was required, and he/she became fully responsible for the legality of the transaction. The result was a substantial reduction in the transaction costs for the users and also for the registry, because the review procedures were facilitated by the forms (risk of interpretation and transcription errors were substantially reduced).¹¹²

The RPU was the first property registry in Peru that integrated a cadastre, within registration procedures. One of the major problems of RPI was a deficient property identification system, mainly based on literal descriptions about location, size and borders, referred to outdated topographic information. RPU developed a real property identification system supported by a geographic base on which the legal information contained in the recordable title is compared with property maps. Although the geographic base was originally produced by COFOPRI during the

¹¹² Unfortunately, this system has been substantially modified by a ruling of the *Tribunal Constitucional* of 2001, and the RP Law that makes mandatory notary certification of forms for the registration of properties whose value is lower than US\$10,000.

execution of the UPRP, RPU developed the expertise and organizational capacity required to administer and maintain the legal cadastre so produced.

RPI – RPU unification. A study financed by the UPRP identified a number of issues in the Peruvian registration system associated to the parallel existence of two registries (RPU and RPI)¹¹³: (a) inefficient resource allocation, users' confusion, and inability to create a critical mass of coherent data for public dissemination; (b) inaccuracy of the registry records due to the lack of a cadastral-based system in RPI which increases the risks of overlapping rights and duplicate records; (c) a non-proactive service pattern in RPI that contrasted with the low-cost, user friendly design of RPU; and (d) high transaction costs due to different registration requirements and inefficient operations in parallel organizations.

The study recommended the integration of RPI and RPU to establish a single registry of real property in Peru. This integration would address directly the issues common to both organizations that would be hard to tackle if managed independently: (a) to develop a cadastral base for RPI records; (b) to reduce overall operational costs by sharing fixed administrative costs, eliminating duplicate activities, and generating economies of scale through increased productivity; and (c) to promote registry culture by eliminating the confusing dual system. The principles of simplification, deregulation and cost-effectiveness that characterized the operation of RPU had spill over effects in the operations of RPI that started to accept standardized forms for building formalization and transactions under the *MiVivienda* and *Techo Propio* programs.

c. Property formalization

COFOPRI: A modern agency working with the poor. The UPRP covered various informal urban settlements including Human Settlements (*Asentamientos Humanos*), Popular Urbanizations (*Urbanizaciones Populares*) and Housing Cooperatives (*Cooperativas de Vivienda*). COFOPRI implemented a pro-active formalization model in selected geographic areas based on the generation of economies of scale that allowed the average cost of each title issued to be reduced substantially. The impact of the UPRP is evident in the final figures of the performance indicators selected during Project design (see Table 1).

Table 1
Achievements of the UPRP

Performance Indicator	SAR	As of June 2004
Total number of properties formalized	959,690	1,195,321
Total number of titles issued and registered	805,527	920,096
Average duration of title registration not more than	50	49 days
Average duration of mortgage registration not more than	10	5.77 days
Average duration of the registration of subsequent transactions not more than	10	5.73 days
Share of males and females as individual owners (1) (2)	N/A	Females: 66.79% Males: 33.21%

¹¹³ “*Estrategia para la sostenibilidad de largo plazo del Sistema de Registro Predial Urbano*” (Strategy for a long-term sustainability of the Urban Property Registry System), Arthur Andersen, Lima, November 2000.

Number of subsequent transactions registered other than mortgages (sales, subdivisions, exchanges, inheritances, etc.) (2)	N/A	554,892
Number of mortgages registered (2)	N/A	72,926
COFOPRI's cost per title issued	US\$35	US\$64.00
RPU's cost per COFOPRI-issued title registered	US\$15	US\$32.73

(1) Of the total number of titles issued, 39% were issued to a single individual (66.79% female; 33.21% male) and 61% to more than one person (joint ownership).

(2) Indicators added by the 2001 Amendment to the Loan Agreement.

The UPRP originally covered the major urban areas of 8 Departments (Lima, Chiclayo, Chimbote, Piura, Trujillo, Arequipa, Huaraz e Iquitos); on June 2001, it was expanded to 6 more (Ayacucho, Ica, Junin, Moquegua, Tacna and Ucayali) [see Table 2]. As COFOPRI entered more complex geographic areas, the formalization framework was revised to ensure that economies of scale were retained. While some aspects of the original processes were streamlined or outsourced, some were gradually reinvented.¹¹⁴ Such reengineering also required modifications in the regulatory framework and to that end COFOPRI developed new internal instructives. COFOPRI also analyzed and evaluated traditional processes, redesigned such processes to meet future needs, assessed the organizational structure and functions of COFOPRI in connection with the redesigned processes, and identified measures to improve organizational effectiveness. As a result processes 0 and 1 were merged into a single process 1. This exercise included the procedures applicable to informal possessions originating from invasions to private land, properties in high-risk areas, or sites of archeological significance.¹¹⁵

Table 2

Geographical Distribution of Formalization Achievements Formalized Properties and Titles Issued

¹¹⁴ “*Estrategia de Largo Plazo de COFOPRI*” (COFOPRI's Long-term Strategy), Apoyo Consultoría, March 2002.

¹¹⁵ Even though the deadline for formalization of invasions was changed from March 1996 to December 2001, in practice COFOPRI did not formalized any invasions occurred after 1996 because the provisions on statute of limitations require at least ten years of uninterrupted and undisputed possession.

Departament	Cumulative Total	
	Properties	Titles
Total Lima	782 449	631 847
Cañete	17 844	10 307
Huacho	12 996	4 850
Lima Cono Este	218 993	176 417
Lima Cono Sur	242 686	207 000
Lima Cono Norte	289 930	202 566
Total Provinces	1041 638	732 587
Ancash	98 716	77 855
Arequipa	201 959	149 352
Ayacucho	69 349	35 160
Ica	81 535	57 716
Junin	35 450	20 841
La Libertad	147 772	102 548
Lambayeque	121 471	84 550
Loreto	46 906	39 703
Moquegua	33 368	25 499
Pasco	15 632	7 454
Piura	112 902	74 318
Tacna	53 003	39 769
Ucayali	23 575	17 822
National Total	1 824 087	1364 434

1/Accumulated between April 1996 and December 2003
Source: COFOPRI

COFOPRI field work followed an innovative approach: recognizing the complex nature of the formalization process, COFOPRI created inter-disciplinary teams comprising social workers, lawyers, engineers and architects that integrated a common vision for regular interaction with UPRP beneficiaries. The development of adequate technical support tools ensured the success of this approach: (a) a parcel-based real property identification system, based on the official mapping system of IGN that contains aerial-photographic information. Through photogrammetric restitution techniques and terrestrial control activities, these maps were adapted to the scale needed for formalization in urban areas; and (b) an automatic information processing system through which the databases used for the massive formalization processes were generated. These databases were also integrated through an internal communication network between COFOPRI's headquarters and local offices that allowed increased efficiency levels.

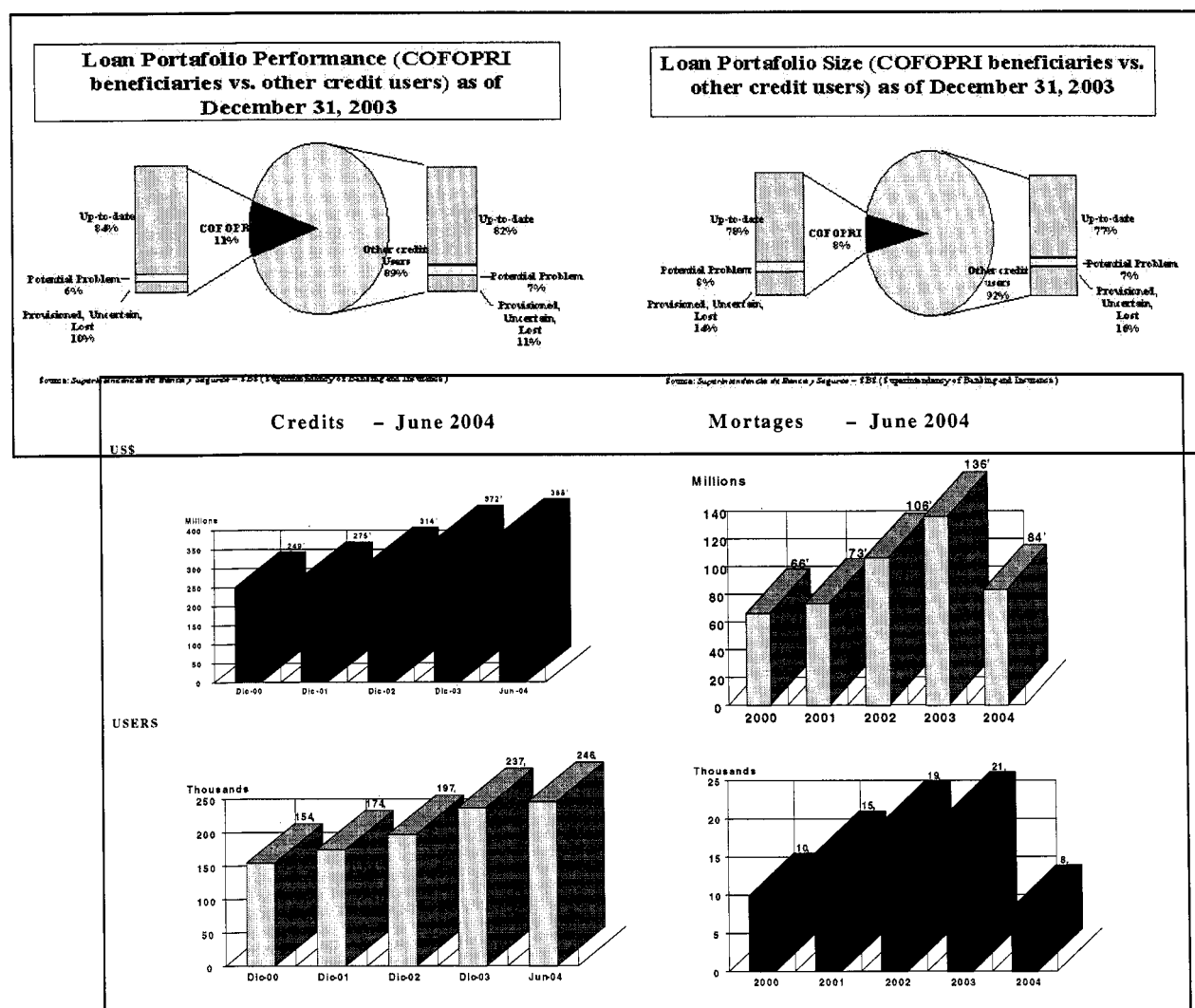
3. UPRP Socio-economic impact.

a. Economic impact

The main results expected from the UPRP were greater investments in housing, increased property value (both by individual decisions to invest in the property and by improved access to public utilities), enhanced formal real estate market (by property registration), easier access the formal financial system (through a mortgage guarantee) and social changes in families and communities (by strengthening awareness on property rights).

Access to credit. According to information provided by the Superintendency of Banks and Insurance (SBS), up to December 2003 approximately US\$372,000,000 in loans had been granted

to 237,000 COFOPRI beneficiaries. Out of these 237,000 operations, approximately 67,000 were guaranteed by mortgages, for a recorded value of almost US\$405,000,000 (see charts below).¹¹⁶



Property Values. In order to have more conclusive information about Project impact on the poor urban real estate market, a quantitative study for the design of a price information system on properties was commissioned. The main purpose of this research (conducted on the basis of surveys) was to estimate the impact of COFOPRI titling process on the difference in prices observed between titled and untitled properties.

The main finding of this analysis was that, the price differential associated with having a property title is approximately US\$925 per property (or around 25% of the value of the typical formalized

¹¹⁶ The low use of the mortgage collateral is possibly associated with the high transaction cost of this guarantee in Peru (property appraisal, public notary deed, and deed registration). Nevertheless, even in absence of a mortgage, a recorded title provides financial institutions reasonable indication of the permanent residence and minimal economic stability of the credit applicant, so reducing the cost of credit evaluation and the risk of default.

property, since a COFOPRI beneficiary property has an average market value of US\$3,700). This marginal impact is constant, even after taking into account different geographical areas.

Since the actual number of properties which COFOPRI succeeded in converting from "untitled" to "titled", up to June 30, 2004, was 565,536 with an increase of US\$925 dollars as the referential value of the titling impact, it was estimated that the gross economic benefit produced by the UPRP was US\$523 million, far exceeding the amount invested in the PNF (including the Bank loan and counterpart resources). (See Annex 9)

b. Social impact

Citizen empowerment. The social assessments of the UPRP concluded that formalization has a positive impact to alleviate poverty.¹¹⁷ They also highlighted that four major factors restricted the beneficiary's ability to improve their tenure status: (a) lack of financial and other resources to obtain formal title; (b) uncertainty of the status of traditional arrangements (including squatting) together with uncertainties about possible negative implications of formalization; (c) conflicts over boundaries and inheritance; and (d) lack of decentralized and coordinated Government formalization services (including a single formalization methodology). The removal of these barriers for almost 1.5 million Peruvian families is the major achievement of the UPRP in social terms.

The UPRP benefited primarily squatters living in precarious conditions in urban and peri-urban areas. Levels of poverty among this target population were high, with ___% and ___% living in poverty and extreme poverty, respectively. These populations were also characterized by disparities in educational levels and health status, and limited productive assets - human capital, physical assets, financial assets, and social capital. Formalized people have a strong association with their homes as a place of security and social cohesion, rather than just an economic asset. Title to homes is associated with the recognition of full citizenship, converting a titling program into a powerful instrument for social development.

Labor Supply. Based on the information contained in the Baseline Survey, an independent researcher prepared a report on the impact of formalization on labor supply. The study presents empirical evidence to prove that informal owners waste a great deal of time protecting their property by having to take part in activities aimed at safeguarding this precarious rights, participate in community groups, and introduce administrative property claims in an attempt to obtain formalization. The study found that there is a substantial cost in terms of lost time and impossibility of entering the labor market as a result of these activities.

The main conclusions of that study were that: (i) formalization programs, contrary to other GoP assistance programs, facilitate the beneficiary population greater access to the labor market; (ii) urban land titling programs reduce the need to generate income at home by making it possible for the beneficiaries to seek better paid employment or greater productivity outside home (by not having to stay there in order to protect the property); and (iii) formalization programs reduce the demand for child labor.

¹¹⁷ "Encuesta de Línea de Base: Reporte Final" (Final report: Baseline survey), Apoyo Consultoría, Lima, November 2000. "Segunda Encuesta de Hogares para la Medición del Impacto del Proyecto de Derechos de Propiedad Urbana en el Bienestar de la Población" (Final report: Follow-up survey), Consorcio ESAN-IMASEN, October, 2004.

The study indicates that for the average family, formalization is associated with an increase of 17% in working hours, with a reduction of 47% in the probability of having to work at home and with a reduction of 28% in child labor probability. The UPRP therefore allowed beneficiaries to have more time to work outside home, to decrease their dependence on work at home which is usually less productive, and to reduce the need for children to seek work.¹¹⁸

Access to affordable credit. Studies carried out during the UPRP showed that even when the families have limited resources, there is a high concentration of credit from formal sources, including applicants who do not have any type of title to property. This is explained by the role of *Banco de Materiales* (BANMAT) as a source of financing, even for those applicants who do not possess any kind of property title, which shows that the State financial institution does not require documents indicating property ownership as a requirement to be eligible for a credit. A study also found that the credits approved for formalized inhabitants had on average an interest rate 9 percentage points lower than the comparable rates for credits granted non-formalized borrowers.¹¹⁹

The Project contracted another study to help encourage investment and credit in formalized areas. The study found that the principal factors affecting credit demand were: (a) the reduced saving capacity of the target population; (b) a fear of high debt; (c) preference for short term conditions; (d) confusion about interest rates; (e) need for payment flexibility; (f) dislike of complex processes; and (g) weak incentive to repay due to lax collection practices by State credit entities like BANMAT. These families also resort to informal credit due to the speed in approval and in spite of high interest rates.

The banking institutions also found obstacles to develop a formal credit niche among UPRP beneficiaries: (a) informality of business activities associated with high credit risk; (b) lack of proper funding to extend terms and amounts of mortgage financing; (c) credits to micro-enterprise sector (SMEs) made difficult by SBS rules on portfolio classification; (d) lack of credit culture, aggravated by State intervention; (e) elevated contract enforcement cost through the Judiciary; and (f) lack of clarity on the scope of the mortgage and other collateral coverage.¹²⁰

The main restrictions that micro-finance specialized institutions found in order to expand their activities among UPRP beneficiaries were: (a) high operating costs; (b) absence of micro-saving products to attract savings of the targeted segment; (c) dependency on highly indebted applicants at rates that discouraged other applicants; (d) low geographic diversification that increases risk; (e) difficulty in expanding the patrimonial basis of the micro-finance institutions; and (f) difficulty to operate in an over-regulated context.

A series of recommendations were made to facilitate credit and investment access for the UPRP beneficiaries. Some of these recommendations were implemented directly by COFOPRI, but others required coordinated action with public and private sector institutions. These recommendations were organized in 5 groups: (a) implement reforms or activities which have a positive general impact on the three objectives covered by the investment promotion subcomponent (development of the real estate market and mortgage financing in the formalized sectors, promotion of small producer credits in the formalized areas and promotion of infrastructure and services investment in the same areas); (b) redefine State intervention based in the micro-financing sector; (c) reformulate

¹¹⁸“Entitled to Work: Urban Property Rights and Labor Supply in Peru”. Industrial Relations Section. Firestone Library. Princeton University. Erica Field. October 2002.

¹¹⁹ Field, Erica and Torero, Máximo (2003).

¹²⁰In the case of BANMAT credits, having a title increases the proportion of credit approvals by 9-10%. A similar effect is not observed in private lenders credits.

housing policies directed at low-income sectors; (d) facilitate downscaling and upgrading of financial institutions in order to facilitate credit access for small producers; and (e) facilitate access to basic infrastructure.

Access to low-cost housing. A definite solution to informality and squatting required a comprehensive strategy of urban development that included support schemes for viable low-cost housing solutions. Urban zoning and planning costs issues would also have to be tackled in order to ensure that squatting does not become an escape valve for population in need of housing with no market alternatives.

The main factors limiting the development of a formal real estate market among beneficiaries of the UPRP are: (a) property and income informality; (b) low savings ability; (c) low payment ability which hinders access to the formal credit; (d) lack of information on supply and demand of properties; (e) heterogeneity in construction standards; (f) limited participation of formal developers in the area of low-cost lots or dwellings; and (g) high interest rates in both the informal and formal market.

The GoP has started housing programs (*Techo Propio*, *Mivivienda*) based on the principles of direct subsidies to the poorest segments of the population and private sector participation in housing financing and construction. The program finances dwellings of up to US\$12,000 through the granting of a direct subsidy to complement an initial amount saved by the beneficiary family and a financial sector credit with resources from the MIVIVIENDA Fund. This program represented a first time attempt by the Peruvian Government to introduce a direct subsidy scheme to satisfy demand instead of the traditional indirect subsidies which were strongly criticized by housing finance specialists. Although *Techo Propio* represented an improvement over the previous situation there are still problems in housing financing to the extent that the existing BANMAT programs have not been modified.

However, even though the programs were well designed their coverage was limited: from 5,000 units per year in 2003 to up to 8,000 units per year by 2006. It is clear that these efforts would not be sufficient to satisfy a demand estimated in more than 1 million units. Moreover, the income structure of the potential beneficiaries was highly volatile and depended on business cycles that made unlikely for them to meet the eligibility requirements of the programs. These housing programs were complemented with other initiatives with direct impact on poverty reduction, such as neighborhood and home improvement programs, and programs aimed at the promotion of second-floor construction. Adequate responses to the housing demand by the poor through State-sponsored programs, plus the efficiencies obtained through the deepening of formalization (both in terms on coverage and quality) became a powerful disincentive to squatting and clandestine urbanization while promoting private sector investments in marginal areas.

4. Conclusion: UPRP Balance

The UPRP socioeconomic objectives were achieved gradually. Documented positive effects exist with regard to increased access to the labor market and to formal credit, increased values of formalized properties, and improvements in gender matters. Credit and investment promotion campaigns addressed information issues in order to help the market function more effectively. Public sector micro-credit programs (BANMAT) did not facilitate the development of a credit market in the formalized areas, but the private sector intervened when there was a business opportunity.

Formalization alone is not sufficient to bring about all the expected economic and social benefits. It is essential to complement it with a set of public policies, such as: (i) strengthening the legal framework related to property rights; (ii) facilitating access to credit for formalized inhabitants through education programs; (iii) carrying out campaigns to promote business formalization; (iv) disseminating the advantages of the registry culture; and (v) encouraging the development of micro-financing institutions.

Appendix 1

Chart No. 1: Formalized Properties and Property Titles issued 1/ (*)

Department	Total Numbers	
	Plots	Titles
Total Lima	782 449	631 847
Cañete	17 844	10 307
Huacho	12 996	4 850
Lima Eastern Cone	218 993	176 417
Lima Southern Cone	242 686	207 000
Lima Northern Cone	289 930	202 566
Total Provinces	1041 638	732 587
Ancash	98 716	77 855
Arequipa	201 959	149 352
Ayacucho	69 349	35 160
Ica	81 535	57 716
Junin	35 450	20 841
La Libertad	147 772	102 548
Lambayeque	121 471	84 550
Loreto	46 906	39 703
Moquegua	33 368	25 499
Pasco	15 632	7 454
Piura	112 902	74 318
Tacna	53 003	39 769
Ucayali	23 575	17 822
Total National	1 824 087	1364 434

1/ Between April 1996 and December 2003

Source: COFOPRI

(*) Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

Chart No. 2: Evolution of the average cost of formalization (*)

	Total expenditures (in US\$ millions)	Titles Issued (in units)	Total cost per Title (in US\$)
1996	1.8	33,742	53
1997	3.4	129,392	26
1998	5.2	149,574	34
1999	18.2	322,053	56
2000	17.2	419,846	40
2001	12.6	115,599	109
2002	13.5	123,827	109
2003	13.4	70,401	190
TOTAL	85.1	1,364,434	62

Source: COFOPRI

(*) Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

**Chart No. 3: Annual Numbers of Formalized Properties and Titles Issued by COFOPRI
(Units) (*)**

	Plots			Titles		
	Lima	Provinces	Total	Lima	Provinces	Total
1996	47,806	2,023	49,829	32,750	992	33,742
1997	174,191	4,284	178,475	125,768	3,624	129,392
1998	111,782	54,142	165,924	107,490	42,084	149,574
1999	164,475	344,465	508,940	110,986	211,067	322,053
2000	199,501	331,137	530,678	170,250	249,596	419,846
2001	35,292	118,588	153,880	29,457	86,142	115,599
2002	31,666	108,371	140,037	38,450	85,377	123,827
2003	17,736	78,628	96,364	166,696	53,705	70,401
General Total	782,449	1,041,638	1,824,087	631,847	732,587	1,364,434

Source: COFOPRI

(*) Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

**Chart No. 4: Subsequent Transactions recorded in RPU
(Units)(*)**

Transaction Type	Area	Year				Total 2000-03	
		2000	2001	2002	2003	N°	%
Mortgage	Lima	4,014	5,002	2,553	5,782	17,351	23%
	Province	8,374	15,047	19,317	16,183	58,921	77%
	Total	12,388	20,049	21,870	21,965	76,272	100%
Sales	Lima	12,433	14,516	11,558	15,172	53,679	46%
	Province	14,659	17,865	12,845	16,416	61,785	54%
	Total	27,092	32,381	24,403	31,588	115,464	100%
Others	Lima	25,521	22,937	28,851	37,892	115,201	41%
	Province	30,178	44,419	45,351	45,616	165,564	59%
	Total	55,699	67,356	74,202	83,508	280,765	100%
Total	Lima	41,968	42,455	42,962	58,846	186,231	39%
	Province	53,211	77,331	77,513	78,215	286,270	61%
	Total	95,179	119,786	120,475	137,061	472,501	100%

Source: RPU

(*)Source: Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru,

2004

Chart No. 5: Amounts and number of credits granted in formalized areas (*)

	Credits granted		N° of Credits	
	(in millions of US\$)	Growth %	(in thousands of units)	Growth %
Dec 2000	249		154	
Dec 2001	274	10.0	173	12.3
Dec 2002	313	14.2	197	13.9
May 2003	323	3.1	213	8.1
Oct 2003	357	5.3	232	8.9
Dec 2003				

(*)Source: Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

Chart No. 6: Portfolio performance, by June 30th of 2002 (*)

Status	Target Segment*	Multiple Bank *	Mi Banco*	Solución*	Trabajo	CMAC	SME	CRAC
Current	75.3	81.2	96.9	96.3	93.4	92.1	88.3	68.9
Refinanced	4.2	5.6	-	1.7	0.1	2.3	2.5	18.7
Expired and judicial collection	20.5	13.2	3.1	2.0	6.5	5.6	9.2	12.4
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* For Micro enterprises.

** Objective Segment with date of July of 2002.

Sources: SBS Statistics and the *Central de Información Positiva*, CIP.

(*) Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

**Chart No. 7: Credits to COFOPRI beneficiaries by department and credit status
(by December 31st of 2002)**

	Total		Current		Refinanced		Arrears & Judicial Collection. Judicial	
	Thousands US\$	%	Thousands US\$	%	Thousands US\$	%	Thousands US\$	%
Áncash	31,038	100.0	17,123	55.1	3,765	12.1	10,150	32.7
Arequipa	46,372	100.0	35,994	77.6	1,325	2.9	9,054	19.5
Ica	13,112	100.0	10,169	77.6	941	7.2	2,002	15.3
Junín	4,573	100.0	3,909	85.5	80	1.7	584	12.8
La Libertad	28,262	100.0	21,472	76.0	1,310	4.6	5,479	19.4
Lambayeque	20,339	100.0	16,828	82.7	370	1.8	3,142	15.4
Lima	100,236	100.0	82,475	82.3	2,142	2.1	15,620	15.6
Piura	18,768	100.0	15,837	84.4	442	2.4	2,556	13.6
Tacna	10,620	100.0	9,023	85.0	268	2.5	1,328	12.5
Rest	40,151	100.0	33,250	81.6	838	2.6	5,994	14.9
Total	313,470	100.0	246,080	78.5	11,481	3.7	55,909	17.8
Number of Operations	212,575	100.0	169,802	76.2	3,695	5.3	39,078	18.5

Source: *Central de Información Positiva*, CIP.

**Chart No. 8: Direct credits to COFOPRI beneficiaries by loan amount and situation
(by July 31st 2002)(*)**

Amount Ranges	Total		Current		Refinanced		Arrears and Judicial Collection	
	Thousands US\$	%	Thousands US\$	%	Thousands US\$	%	Thousands US\$	%
Less than US\$ 5,000	130,696	100.0	109,750	84.0	2,425	1.9	18,521	14.2
From 5,001 to US\$ 10,000	28,315	100.0	21,374	75.5	1,164	4.1	5,778	20.4
From 10,001 to US\$ 15,000	15,469	100.0	11,168	72.2	626	4.0	3,675	23.8
More than US\$ 15,000	97,573	100.0	62,670	64.2	7,192	7.4	27,711	28.4
Total	272,053	100.0	204,962	75.3	11,407	4.2	55,684	20.5
Number of Operations	202,839	100.0	154,607	76.2	10,724	5.3	37,508	18.5

Source: *Central de Información Positiva*, CIP.

(*) Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

**Chart No.9: Comparison of formal bank credit quality to natural persons
(by October 2003) (*)**

Credits to Beneficiaries COFOPRI	Normal %		Potential Problem %		Loss or Risk Provision %		Total %
Amount (Mill US\$)	274.8	77.0	27.8	7.8	54.4	15.2	100
N° of Credits (Thou.)	195	84.1	15	6.5	23	9.8	100

Other Credits to Individuals							
Amount (Mill US\$)	3089.1	75.9	283.2	7.0	700.3	17.2	100
N° of Credits (Thou.)	1566	81.6	141	7.3	213	11.1	100

Source: SBS and *Central de Información*

(*) Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

Chart No.10: Mortgage registration at RPU by Department (*)

City	2000			2001			2002			2003		
	Number	Mortgaged Value \$ Thou.	Aver. Value \$ Thou.	Number	Mortgaged Value \$ Thou.	Aver. Value \$ Thou.	Number	Mortgaged Value \$ Thou.	Aver. Value \$ Thou.	Number	Mortgaged Value \$ Thou.	Aver. Value \$ Thou.
Lima	2.862	20.400	7	3.283	25.701	8	4.341	30.233	7	4935	42.396	8.6
Piura	516	1.657	3	854	2.468	3	1.358	6.043	4	1152	7.043	6.1
Chiclayo	522	2.131	4	1.026	4.179	4	1.207	7.639	6	1131	11.864	10.5
Trujillo	592	3.614	6	1.026	4.179	4	1.207	7.639	6	1131	11.864	10.5
Chimbote	352	7.961	23	521	4.137	8	651	14.534	22	732	10.559	14.5
Arequipa	2.121	18.182	9	3.786	16.555	4	3.012	18.712	6	3655	23.725	6.5
Iquitos	263	2.054	8	219	5.236	24	488	4.842	10	462	5.146	11.1
Huacho	1	1	1	63	181	3	102	255	3	115	0.770	6.7
Cañete	47	110	2	134	349	3	458	2.334	5	224	1.288	5.7
Ica	380	1.233	3	436	1.402	3	625	2.216	4	609	2.453	4.0
Moquegua	1.020	4.107	4	2.068	4.513	2	2.115	5.562	3	2336	8.768	3.8
Tacna	542	2.640	5	1.104	3.570	3	2.704	8.419	3	2037	9.688	4.8
Cerro de Pasco	6	51	9	11	148	13	18	344	19	47	0.828	17.6
Huancayo	30	137	5	197	630	3	241	861	4	288	1.602	5.6
Ayacucho	597	1.664	3	934	2.505	3	779	2.813	4	867	3.506	4.0
Pucallpa	7	39	6	65	156	2	119	525	4	109	0.785	7.2
Total	9.858	65.981	7	15.751	74.782	5	19.694	113.197	6	20720	140.553	6.8

(*) Source: Morris, Endo, and Ugaz, *Develando el Misterio* (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

Chart No. 11: Impact of the Credicrece Program in credit access (*)

	Training 2002		Training 2003	
	Participants	%	Participants	%
Before Credicrece Workshop:				
Participants that do not have a balance record at the SBS	1.633	87%	4.203	87%
Participants that have a balance record at the SBS	242	13%	618	13%
Total of Participants	1.875	100%	4.821	100%
After the Credicrece Workshop:				
Participants that do not have a balance record at the SBS	1.509	80%	4.061	84%
Participants that have a balance record at the SBS (new)	185	10%	236	5%
Participants that have a balance record at the SBS (old)	181	10%	524	11%
Total of Participants	1.875	100%	4.821	100%

(*)Source: Morris, Endo, and Ugaz, Develando el Misterio (Unveiling the Mystery), COFOPRI and WB, Peru, 2004

Appendix 2

Lessons Learned

Legal and Institutional Reforms

- Institutional reforms are required to eliminate high transaction costs in property markets as a precondition for an effective demand for formalization.

Investments in multi-purpose cadastre or valuation systems for tax purposes should come later at a time when formalization beneficiaries have gained enough trust in the State system and property markets have been functioning long enough for prices not to be distorted. Furthermore, for a UPRP type of project an appropriate technology that is manageable and sustainable is more important than sophisticated technology, especially for mapping, cadastre, and database activities.

- A flexible stance to legal and institutional reform must be clearly reflected in project design.

Institutional reform is an evolutionary process. As soon as a reform is completed, new constraints and new obstacles emerge and efforts have to be taken to resolve these issues. New opportunities can also emerge that need to be capitalized (e.g. decentralization, registry unification, national cadastre system). Similarly, while a general legal framework was needed at the start of massive area-based property formalization program, the framework remained flexible to respond to local circumstances that were likely to emerge during the implementation process.

- Creation of a new institution with a single-purpose mandate to issue titles, rather than using an existing institution may yield positive results.

This project proved that new institutions with fresh mandates can really accomplish what old institutions with old mandates could not. The new institutions remained strong and, by the end of the project, one of them (RPU) was able to move on to the merger of the registry established by the project with the old registry thereby joining the strengths of both entities.

A long-term vision

- Continuous Government-Bank dialogue may render very positive results in the medium and long terms.

A Government-Bank solid partnership may generate the most positive results during design and implementation of property rights projects. In the UPRP, careful preparation was crucial for the smooth and successful implementation. In addition, effective management and continuity of people working on the project on the part of the Bank as well as the Borrower were critical for the success of a project.

- A comprehensive approach to property rights should match modern organizations and markets.

Effective formalization of property rights through legal and institutional reforms is feasible provided that it addresses the causes of informal property and includes a mix of modern organizations and practices that promote a long-term real estate property market based on secure and transferable rights. Respect to private property should always be promoted as a basic principle of the overall system.

- Long-term sustainability and legitimacy of property reforms must be addressed early on in the institutional framework.

The institutional framework can assure sustainability by: (i) integrating a participatory and consultative approach in all stages of the formalization process; (ii) providing for effective legal security and reduction of transaction costs; (iii) requiring property information to be administered through a geo-referenced cadastre system; (iv) comprising effective conflict resolution mechanisms; and (v) including provisions to facilitate collaboration between central and decentralized agencies.

- Recognition of property rights is only the first step in a process to improve the living conditions of the formalized population.

Property rights formalization must be complemented by policies that promote access to credit, housing, infrastructure, and community empowerment, among others. This particular Project learned that the following complementary actions were needed: (i) mechanisms of information collection and maintenance regarding the characteristics of formalized properties and program beneficiaries, that allow the market to operate more efficiently and effectively; (ii) promotion of the potential of the formalized market among market agents involved in credit, investment on infrastructure and public utilities (iii) involvement of other public and private institutions interested in housing policies, credit and infrastructure, and public utilities, as partners in an effort to improve the living conditions of the poor; (iv) community education to inform and educate the formalized population on the significance of property rights, the benefits of registering subsequent transactions, and mechanisms to access to credit; and (v) strategies to strengthen the capacity of municipal governments.

Effective Consensus-building

- Given the political sensitivity of property issues, securing and maintaining high-level consensus and commitment to property reform is critical.

As demonstrated by the UPRP, a broad consensus involving the highest instances of Government was an essential precondition for the development of a massive titling, cadastre and registration program. High-level political support was needed to concentrate functions and responsibilities

related to formalization into a single agency to achieve significant economic efficiency, standardize and streamline land regularization procedures in a systematic and timely manner, and promote equitable access to tenure security. In addition, high-level support helped to neutralize opposition by those who benefited by the status quo.

However, high-level support can falter, especially during changes in the political administration. Therefore, a consensus-building and communication strategy must be designed and implemented to sustain high-level support throughout the formalization process and beyond. The government's commitment must be translated into specific actions like the establishment of institutional arrangements, approval of the required regulations, as well as the signing of cooperation agreements between participating agencies, like the ones entered into between COFOPRI and SUNARP. Furthermore, to maintain a multi-sectoral perspective, it was critical to get the commitment of other agencies concerned (such as MEF and MVCS) to implement related reforms in their sectors, so that full impact of titling and land registration can be realized.

Special monitoring and evaluation mechanisms

- Property Rights projects should focus on monitoring and evaluating the potential social and economic benefits of property reforms.

Results of the socioeconomic monitoring component of the UPRP not only improved decision-making but also helped generate support for property reforms. Studies were conducted to measure (qualitatively or quantitatively) the benefits of formalization. In addition, surveys were carried out to identify the factors restricting access to credit, investment in housing, infrastructure and public utilities, among others. The ability to demonstrate social and economic benefits facilitated alliance-building and helped identify policy areas that needed to be reformed to realize further benefits.

Appendix 3

Shanghai Conference Case Study

Executive Summary

1. Problems/Issues Addressed

- (a) More than 1.5 million informal urban properties located in the eight largest urban centers of Peru that provided housing for more than 8 million low-income Peruvians (which represented one third of the total population).
- (b) Two thirds of the labor force and at least half of available housing were informal by 1996.
- (c) An estimated of more than twenty billion dollars were invested in informal housing but were not protected by legal titles or property registries, and had no access to formal credit by using the property as collateral.
- (d) Connection to public utilities as water, sewerage and power were hard to obtain due to the lack of reliable data about property rights and land allocation, and potential conflicts and insecurity about land tenure.
- (e) A weak legal and institutional framework that was unable to accommodate various types of informal tenure within the formal system.

2. Objectives Pursued

- (a) Title and register more than 1 million urban informal properties in 8 major urban centers of Peru.
- (b) Generate substantial increases in:
 - i. Property commercial values;
 - ii. Recorded property transactions;
 - iii. Access to credit and use of formalized property as collateral; and
 - iv. Investments in housing development and the better use of urban informal property in accordance with market values.
- (c) Include a substantial portion of the Peruvian urban population into the formal sector by:
 - i. Providing access to effective protection of property rights;
 - ii. Allowing access to infrastructure and public utilities; and
 - iii. Increasing female owners' share.

3. Design and Implementation

- (a) Consistency of the objectives with the country's strategy, based on revised institutional framework, establishment and strengthening of specialized autonomous entities (COFOPRI and RPU), and a National Formalization Program (NFP).
- (b) Diagnostic surveys of other urban centers allowed making informed decisions on areas to pursue or discard on the basis of the complexity and potential.
- (c) The project involved two autonomous agencies in the implementation process: COFOPRI and RPU that had appropriate budget management authority as well as technical, functional, and administrative autonomy.
- (d) The three major stakeholders identified were: (i) urban landholders; (ii) financial institutions; and (iii) planning and development services suppliers: local governments, urban infrastructure and services providers, land and housing developers (private and public).

4. Problems Encountered

- (a) Strong social pressure in main urban centers to begin expansion earlier than expected.
- (b) Not all forms of informality were identified during project preparation (*pueblos tradicionales, programas de vivienda del estado, mercados populares*).

5. Adaptations Made during Implementation

- (a) Expansion to other urban centers beyond the initially targeted (Lima and seven other major urban centers). A number of COFOPRI staff trained in Lima and Arequipa were transferred to the new cities to manage the formalization process and train local human resources.
- (b) In-house development of the cartography and mapping databases instead of outsourcing as originally envisaged.
- (c) Discussions with beneficiaries helped identifying and dealing with new forms of informality.
- (d) Design of special procedures for certain types of properties which due to their special features required ad-hoc rules such as archeological or risk areas.
- (e) The adoption of decentralized formalization procedures through Provincial Commissions chaired by the local mayors, being COFOPRI only in charge of the technical formalization work.

6. Factors for Success

- (a) Scaling-up was possible because of the experience gained during the initial years, processes standardization, and modular design which allowed replicating positive experiences in new urban areas.
- (b) Broad and sustained consensus among the highest authorities of the Executive and Legislative Branches, the leaders and people of the informal settlements and civil society at large, about required reforms thus neutralizing the opposition from important interest groups which wanted to keep the status quo.
- (c) Adoption of an institutional reform strategy based on political consensus, aiming at: (i) generating massive titling; (ii) concentrating formalization functions and responsibilities; and (iii) neutralizing vested public and private interests.
- (d) Research-driven project design and implementation.
- (e) Shared consensus of the direct relationship between property formalization and poverty reduction.

7. Results Achieved

- (a) 1,134,315 property titles issued by June 2004 (which exceeded the initial target of 1,019,746 titles by 11%)
- (b) *Improved social stability*: legal security provided by the property title and using the title as collateral for a loan; improved quality of life of beneficiary families, especially of women and children; consolidated State presence in poor areas.
- (c) *Increased access to public utilities*: homes with property titles have more access to public utilities than informal possessions.
- (d) *Investment in home improvement, increased property value and subsequent transactions*: people from low income levels consider that formalization increased the value of their property between 20% and 30%; the marginal impact of a property title in each parcel is approximately US\$925.00, which represents an increase of about 25%; subsequent property

transactions (sales, sub divisions, exchanges, inheritance, etc.), have passed from 58,000 in 1999 to 136,000 in 2003, which represents a 134% increase.

- (e) *Increased access to credit:* the number of mortgages registered has increased 106% between 2000 and 2003; mortgages amount increased from US\$66 millions in 2000 to US\$136 millions in 2003; credits granted by the formal financial system have increased by 47% in 3 years (December 2000-December 2003), from US\$249 millions to US\$367 millions; the number of credits granted has grown 53% in the same period (from 154,000 to 235,000); a 17% increase in the labor hours of beneficiary families and a 47% decrease in the possibility of working at home.
- (f) *Other social benefits:* a 28% reduction in the likelihood of child work, and a 66% of women individual owners.

8. Lessons Learned

Effective formalization of property rights through legal and institutional reforms is feasible provided that it addresses the causes of informal property and includes a mix of modern organizations and practices that serve a real estate property market based on secure and transferable rights.

Formalization must be complemented by: (i) mechanisms of information collection and maintenance regarding the characteristics of formalized properties and program beneficiaries, that allow the market to operate more efficiently and effectively; (ii) surveys to identify the factors restricting access to credit, investment in housing, and in infrastructure and public utilities; (iii) involvement of other public and private institutions interested in housing policies, credit and infrastructure, and public utilities, as partners in an effort to improve the living conditions of the poor; (iv) education of the formalized population on mechanisms to access to credit; (v) dissemination among the formalized population of the benefits of registering subsequent transactions; (vi) promotion of the potential of the formalized market among market agents involved in credit, investment on infrastructure and public utilities; (vii) strengthening of the municipal government regarding land administration, planning and urban development, as well as promotion of local economies; and (viii) land management systems that allow land allocation for housing purposes, as a part of an environmentally sustainable development strategy.

9. Conclusion

The recognition of property rights is only the first step in the process to improve the living conditions of the formalized population, providing them the legal security that allows access to credit, increases properties' value, provides access to infrastructure and public services, and develops a real estate market. The UPRP was not designed to provide immediate access to credit, but to generate the essential conditions for the development of a credit market.

It is essential to develop modern institutions, build consensus about the reforms, show the economic and social benefits of the reforms, and establish alliances with stakeholders. Land administration policies that allow the efficient allocation of land resources should be developed to satisfy housing demand and prevent future invasions. Respect to private property should always be promoted.

