

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

Report No.: AB2649

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| Project Name | REAL ESTATE REGISTRATION |
| Region | EUROPE AND CENTRAL ASIA |
| Sector | General agriculture, fishing and forestry sector (25%);Housing finance and real estate markets (25%);Information technology (25%);General public administration sector (25%) |
| Project ID | P100582 |
| Borrower(s) | GOVERNMENT OF AZERBAIJAN |
| Implementing Agency | |
| | Government of Azerbaijan/Ministry of Finance Baku Azerbaijan Tel: (994-12) 493-30-12 |
| | State Service for the Registration of Real Estate Azerbaijan |
| | State Land and Cartography Committee Azerbaijan |
| | State Committee for the Management of State Property Azerbaijan |
| Environment Category | <input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined) |
| Date PID Prepared | November 6, 2006 |
| Date of Appraisal Authorization | December 4, 2006 |
| Date of Board Approval | March 22, 2007 |

1. Country and Sector Background

At independence the government of Azerbaijan inherited a badly functioning command economy. Reform began in the mid-1990s and is now mostly complete. State and collective farms have been disbanded and nearly all cultivatable land has been distributed to individual households in one of the most comprehensive agrarian land reforms in the former Soviet Union. The farm privatization program was beneficial to rural communities as it provided a tangible asset that could be utilized for subsistence or production for sale, and the asset could be kept in the family through inheritance. The poorer members of the community were given assets and there was no distinction made according to gender.

There is now a considerable body of law and real estate law in Azerbaijan built up over the last decade, including: the Constitution, a Civil Code (1999), a Land Code; and Laws on: Land Reform, Land Markets, Land Leasing, Notaries, State Land Cadastre, Land Use, and in 2004 a State Service for Registration of Real Estate (SSRRE), and one on a State Committee for the Management of State Property (SCMSP). In addition, most of the significant institutional issues have been dealt with through the creation of the SSRRE which has the sole mandate to register private property and maintain the real estate cadastre.

The government and the Bank are in the final stages of completing the Country Partnership Strategy for 2006 to 2009. The proposed project falls within Goal 1: Effective Management of Resources, Good Governance, and Prevention of Corruption and also Goal 2: Sustainable Growth of the non-oil economy. The project is referred for inclusion in FY07 under the CPS Objective II Sustainable Growth of the Non-oil economy.

A first Agricultural Development and Credit Project (ADCP) ran from 1999 to 2006 and included a component on real estate registration. This component supported: a) pilot unified cadastre and registration system; and b) the establishment of 10 regional cadastre centers throughout the country. The pilot unified system consisted of several parts including the compilation of graphical cadastral maps across a defined area (Nakhchivan), and the building and implementation of a unified information technology system in support of real estate registration. The pilot work was considered successful by the Government who now want to expand this activity nation-wide.

Security of title to land and immovable property and the ability to transact in the real estate market and obtain credit is fundamental for the SME sector, rural development and labor mobility. There are still some concerns in Azerbaijan that the process of dealing with property can be slow, expensive and subject to non-transparent processes. There are large areas of informal settlements that have arisen because of non-enforcement of planning rules and the demand from people migrating to cities are displaced from elsewhere. The proposed project will have a beneficial impact on the provision of services to individuals and companies, especially in the non-oil sector. It will improve the transparency, speed and quality of services provided through improved facilities and procedures, and linking the systems used in land administration with the e-Government initiatives that are also aimed at reducing opportunities for corruption and providing better services to the public.

2. Objectives

The project objective is to ensure that there is a reliable, transparent and efficient real estate registration system supporting the real property markets and suitable systems for the management and use of State-owned immovable property. The key beneficiaries will be those people and businesses that want security in their land or property in order to invest their labor or acquire capital through using real estate as security for loans. The citizens of Azerbaijan will also benefit by having more transparent systems operating and through government making better use of State owned immovable property assets. Improved use of State owned assets should benefit

the citizens through increased revenue to government and more efficient use of property for social purposes.

The project will cover the whole of Azerbaijan and by the end of the project all of the existing known information about the location of immovable property and the rights relating to that property will be entered into a single automated system that is readily available to the public. The base mapping will provide a complete record of all property, whether officially recorded elsewhere or not, and the systematic analysis of properties and rights conducted in Absheron and Binagadi in Baku district and Mingechevir (or similar City) will help citizens to regularize their property rights and help the government to agree the strategies for dealing with informal settlements. The automated system will also include information about the location and use of all State-owned immovable property. The system for registering property transactions will be automated in each of the 21 registration offices and the established standard for registering a transaction will be one day. It is expected that customer satisfaction will increase and an increase in the number of transactions, including mortgages, will be noticed. These outcomes will be measured through regular statistical analyses of the number of immovable property objects entered into the new system and the number of sales, mortgages and leases registered. The project will also monitor the increase in the value of property and the total amount of money lent through mortgaging. Customer satisfaction will be measured through customer satisfaction surveys. Comparisons with other economic indicators will provide an estimate of the economic impact of the project against the general economic improvement for Azerbaijan.

3. Rationale for Bank Involvement

Now that the basic pre-requisites are in place – a viable single agency, a satisfactory legal framework – the Government of Azerbaijan has approached the Bank for support for its land administration system. The government is keenly interested in reforms in this sector as demonstrated by their resolving of the main institutional issues. SSRRE and the other agencies involved have shown solid commitment to the project and have completed project design successfully.

The Bank is currently financing several similar projects in the region and brings to Azerbaijan a wide regional and global experience in land policy and administration reform. Similar projects have already been completed in nearby countries – Georgia, Moldova and Armenia. The proposed project will also build on the experience gained from the pilot registration project in Nakhchivan under the Azerbaijan Agricultural Development and Credit Project.

4. Description

The project will have four components as follows:

Real Estate Registration The objective of this component is to provide more effective and efficient customer services in the registration of property rights through the improvement of the physical condition of the registration office premises and installation of automated systems and on-line services. Activities include: (i) the development of new buildings and renovation of existing buildings; (ii) the supply of office equipment, furniture and computer systems; (iii) the

development of a the unified registration and cadastre system providing improved service provision, archiving and on-line access to notaries and other professionals; (iv) providing a complete real estate cadastre and building inventory; (v) improvement in planning, permitting and valuation systems; (vi) improving public awareness; and (vii) improving the ongoing sustainability of the registration services through strategic and business planning.

State Property Management and Register The objective of this component is to support the SCMSP in its property management and privatization function. This will be achieved by: (i) improving the administrative systems and service delivery within the SCMSP; and (ii) improving the automated State Property Management System.

Base Mapping and Land Cadastre The objective of this component is to provide the basic geodetic, mapping and cadastral data for the SSRRE and the SCMSP to establish their automated systems and continue with the maintenance of the real estate cadastre. Activities include: (i) Establishing a series of 22 Continuously Operating Reference Stations (CORS) to be used for current and future survey work in all disciplines; (ii) the production of a complete set of digital orthophotomaps through new satellite and aerial imagery; (iii) development of land parcel maps; and (iv) improving the ongoing sustainability of the services of the SLCC through strategic and business planning.

Training, Policy development and Project Management The objective of this component is to support project implementation and monitoring and to coordinate joint activities relating to: (i) training; (ii) developing a joint information technology/ information management strategy; and (iii) policy and legislative development. A project management unit will be funded for the administration of project finances, production of procurement documents and monitoring project activities.

5. Financing

| | |
|---|--------|
| Source: | (\$m.) |
| BORROWER | 12 |
| INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | 29 |
| Total | 41 |

6. Implementation

The project will be implemented through the three implementing agencies – SSRRE, SCMSP and SLCC. The three implementing agencies (IA) will be supported by a Project Management Unit (PMU) which will be located within the SSRRE. An inter-ministerial Steering Committee (SC) will provide overall guidance and direction for the project. A Project Director, appointed by Government, will provide overall coordination for project implementation and direction for the PMU.

7. Sustainability

SSRRE has been clearly defined as the agency for registration and cadastre. The agency already has offices nationwide taken over from the former Bureau of Technical Inventory. SSRRE is also already a self-financing entity, with only the central headquarters funded from the central budget. All regional offices support themselves entirely (salaries, equipment, etc.) off of the fees that they earn for services. The key to sustainability therefore is the focus on improving service delivery of SSRRE and growing the real estate market. Component A of the project will focus heavily on improving the service delivery of SSRRE and completing the conversion to the registration of title system across the country. Components C and D – including base mapping, project management and training – will further support these objectives.

The second major component of the project (Component B) is focused on support to SCMS for management of state property. Again the focus is on capacity building of the staff and the State Committee itself, which is critical as the SCMS completes the main privatization program and moves more into management of state property and other assets.

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

Lessons learned in the region show that it is necessary as a first step in land administration to ensure that a suitable means for recording and protecting citizens property rights are pre-requisites for sound land administration and economic development. The property registration can be designed to guarantee property rights even if all the property records are not yet available. Land administration and land management is a complex area requiring interventions to locate all properties, assess the boundaries and usage of the land, clear slums or squatter settlements, privatize or reconstitute property rights, improve rental markets, resolve disputes, increase revenues through taxation, etc. Each requires that the regularized or clarified rights can be securely recorded and traded. Thus, the project concentrates on providing the basic facility to establish a simple, inexpensive and sustainable immovable property registration system that is trusted by the public for its accuracy and integrity.

Other projects in the region have shown that, even if registration systems work properly, if the construction permitting and land use zoning system is not improved then little new development will occur. Also, if it is difficult or very expensive to regularize illegal developments or encroachments, the informal property market will continue to operate even if the registration system works well. For this reason Component A6 will include pilot work to record all properties and details about ownership in the cadastre so that an analysis can be completed to assess the scope of work involved in regularizing all development. This will lead to the development of policies, strategies and regulations to resolve real estate administration problems across the country.

It has also been noted in several countries that where the government retains ownership of large amounts of land or property the land and property does not revert to its best use. Civil servants are not usually 'business oriented' and it is often difficult to even identify which land is State

owned, which is municipally owned and what is available for development. Foreign investors also generally require secure access to land before they will invest in major projects. For this reason Component B is included in the project to improve the use of State and Municipal land and help with privatization or better usage. This has not been done in other projects of the region, but has been identified as an issue.

9. Safeguard Policies (including public consultation)

| Safeguard Policies Triggered by the Project | Yes | No |
|---|-------------------------------------|-------------------------------------|
| Environmental Assessment (OP/BP 4.01) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Natural Habitats (OP/BP 4.04) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Pest Management (OP 4.09) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Cultural Property (OPN 11.03 , being revised as OP 4.11) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Involuntary Resettlement (OP/BP 4.12) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Indigenous Peoples (OP/BP 4.10) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Forests (OP/BP 4.36) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Safety of Dams (OP/BP 4.37) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Projects in Disputed Areas (OP/BP 7.60)* | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Projects on International Waterways (OP/BP 7.50) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

The project has been assigned as Environmental Category B, which means that a partial Environmental Assessment (EA) will be carried out to ensure that the rehabilitation and modernization works would be environmentally acceptable and cause no or minimum damage to the environment. The EA would include an Environmental Management Plan (EMP).

Other than construction and renovation of office space, the project will not support civil works, land conversion, resource extraction, or any activities that could potentially damage the environment. Contracts for civil works under the project will be subject to screening for environmental impacts by the responsible environmental entity. All bidding documents and contracts will include measures to minimize or mitigate environmental damage. Standard operating procedures will include measures applying to construction in general, such as measures to control dust, noise, and traffic at construction sites, and guidelines for controlling erosion and clean-up after construction. The project will not support land acquisition and associated involuntary resettlement.

On balance, the proposed project is expected to be positive from an environmental standpoint. Registration and cadastre mapping would induce a series of behavioral changes among property owners; many of these would be environmentally positive. Nonetheless any adverse impacts such as intensive use of agriculture input and increase in urban development would be more than adequately compensated by the environmental benefits generated by the project.

10. List of Factual Technical Documents

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

Preliminary Social Assessment
Institutional Assessment
Preliminary Legal Framework Review
Environmental Management Plan

11. Contact point

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