

Armenia Title Registration Project

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Since becoming independent in May 1991, the Government of Armenia has sought to consolidate politically, promote market reform, and redefine the government's role in the economy.

One of the areas pursued was land reform. Agricultural land was distributed free-of-charge as private property to more than 310,000 farmers. The area was allocated in proportion to family size and with a five-year ban on reselling the land. Following land distribution, private agricultural land accounted for 366,000 hectares or approximately 26 percent of all rural land.

This approach resulted in the fragmentation of agricultural holdings, with families owning noncontiguous plots. Land use was inefficient, owing in part to the low rate of use of agricultural machinery. Making land use and farming more efficient would require the establishment of a functioning land market. Granting farmers the right to sell, exchange, and lease their land would enable them to use it as collateral and to consolidate family plots.

PROPERTY OWNERS, REAL ESTATE AGENTS AND BANKS ARE SATISFIED.

In Armenia, the Title Registration Project (TRP) provides an example in which effective project design and the commitment of the implementing agency—the State Committee on the Real Property Cadastre—led to successful implementation and sustainable results.

OBJECTIVE

The overall aim of the Project was to promote private sector development by implementing a transparent, parcel-based, easily accessible, and reliable *registration system* for land and other immovable property. The system was to provide a chronological record of property owners and their rights and obligations. The availability of this information was expected to reduce the transaction costs of title transfers and mortgage financing and lead to more secure property rights for parcels registered in the system. This in turn was expected to lead to higher land and real estate value, increased productivity, and the consolidation of fragmented rural land ownership. Increased use of property as collateral was expected to bring about general improvement in the efficiency of rural and urban real estate markets. The project was also intended to promote least-cost registration procedures by building on existing property information databases (adding only market-relevant information to these databases), and by contracting private surveyors.

Securing property rights and increasing the efficiency of property markets are project objectives that remain highly relevant in Armenia, and highly relevant to the World Bank's country assistance strategy, which emphasizes support for private sector led economic growth.





OPERATIONAL CADASTRE IN PLACE

The project has successfully established an efficient and reliable cadastre and title registration system for immovable properties, a modern map production capability, and a highly competitive and professionally operating private surveying industry.

Source: Implementation Completion Report (IDA-31350), June 2004

Almost all of the country's 2.5 million privately-owned land parcels and buildings had been surveyed when the Project was completed in 2004, with 1.136 million property records in the central database. Today the database contains around 1.8 million property records.

Response times to client requests have been sharply reduced and information is now provided within a day. Registration of real estate transactions generally takes one day and about three days for more complicated cases.

Modern operational parameters for a real estate market were successfully put into place as well as the institutional bases for secure property ownership, transfer, mortgaging, and effective and equitable taxation. As a result of the publicity and information program implemented by the State Committee on the Real Property Cadastre (SCRPC), the opportunities available to property owners to transact and invest in land are now public knowledge. A legal framework has also been established that eliminates the need for title insurance and the costs to property owners of paying lawyers' fees involved in handling property transactions.

Before 1996 the property market was largely dormant. Today the real estate market is growing rapidly. While the active market is small, with about 1.8 percent of all properties sold, leased or mortgaged in 2003—that figure was more than double those at the end of the

long slump of 1998-2000. If the growth rates of the past three years are sustained, the active market will exceed the 5 percent mark in 2008—a measure considered very active by international comparisons.

USING IMMOVABLE PROPERTY AS COLLATERAL

Registered mortgages rose rapidly when it first became possible to pledge property in 1999 and 2000. They then declined by 16 percent in 2001 as the market settled and a banking crisis affected a number of lenders. The economy then improved and people used their property to invest, with registered mortgages increasing 38 percent in 2002 and 48 percent in 2003. Most mortgages are in urban areas.

Although land-based agricultural mortgages accounted for only about one fifth of all registered mortgages in 2003, urban properties are commonly mortgaged to raise funds that are invested in farms.

The Ararat valley remains the prime area for land-based mortgages in agricultural areas. Lending rates now range from 10 to 16 percent per annum, matching the lower end of the range anticipated in the staff appraisal report, (1-3 percent per month)

and far below the rates of 40 percent and more that prevailed when the project commenced. While the Project did not determine interest rates, it did successfully play a role in bringing these developments to pass.

A NATIONWIDE NETWORK OF INFORMATION AND REGISTRATION CENTERS

A nationwide network of 47 Information and Registration Centers (IRC) supported by the Central Information Center was established. All staff is fully trained, and all offices are equipped and operating effectively. Client satisfaction rose commensurately, indicating that service standards had greatly improved.





MODERN SURVEYING METHODS IN USE

Systematic registration requires substantial survey and mapping work, and this was undertaken by the mapping center, where the capacity to produce up-to-date maps fostered the development of a competitive private surveying industry.

The territory of the Republic of Armenia is divided into ten *marzes* (regions), which implement the government's regional policy, and coordinate the activities of local branches of the executive authority. Two very important surveys warrant mention. The first was undertaken to establish accurate administrative community boundaries in two *marzes*, consisting of 194 communities. The survey was necessary because maps derived from the individual community surveys frequently led to discrepancies (overlaps or gaps) in the boundaries between them. The second survey was undertaken to reassess the land categories in four *marzes*, consisting of 375 communities. That survey was necessary because the existing land classifications were outdated and land use had changed since the previous update several decades earlier. Particularly affected were people paying taxes on land as if it were irrigated when it no longer was. The SCRPC is now carrying out similar work in the remaining *marzes* using its own funds.

In support of the core survey and mapping activities, the project was also to provide modern technological inputs, notably improvements in the geodetic network, access to satellite imagery and aerial photography, orthophoto mapping, and photogrammetric processing of imagery. The work to improve the geodetic network continues, and a national geodetic framework that meets international standards is in place and connected to the EUREF framework. All the digitizing, processing and mapping equipment is actively used, and the map production underway is based on state-of-the-art technology.

CAPACITY BUILDING OF PRIVATE SECTOR SURVEYORS

A highly competitive and professional private surveying industry was successfully promoted. Survey works were competitively tendered, and 100 different companies carried out the work under 358 separate contracts. All



contracts were professionally managed by the SCRPC mapping center and the PIU. Using the private sector lowered the unit costs of surveying.

TRANSACTION FEES REDUCED BY 50 PERCENT

The rapid growth in registered transactions has resulted in considerable revenue growth. Income from state duties increased 37 percent in 2002, and 19 percent in 2003 despite the


fact that the registration fees were reduced by 50 percent. The average fee for a transaction is about US\$15. During the life of the Project the annual revenue from transaction registrations, including sporadic titling was over \$1 million. By 2007 annual revenue had risen to \$7,875,419.

SUSTAINABILITY— INTEGRATION AND COMMITMENT

Administrative and technical capacity throughout the entire system is high. The findings of customer satisfaction surveys and mission reviews indicate that the SCRPC has reduced its fees by 50 percent or more, and drastically shortened turn-around times for all client services. The impact of these measures is evident in the significant growth in the number of client transactions and in significantly improved customer satisfaction. This lays the groundwork for a client-oriented, reliable and high-quality service function.

The user fees collected by the SCRPC cover the cost of IRC operations and maintenance. The system's financial viability will further improve as the volume of transactions continues to increase (annual increases of about 20 percent are likely for the foreseeable future), while staff costs are reduced once the initial systematic registration effort with its heavy workload is completed.

The technical and operational aspects of the cadastral information and registration functions and the mapping facility are of high standard. Because the Project was integrated into the SCRPC from the beginning, no real transition from project implementation to regular operations of the SCRPS was necessary. Management was fully committed to the operations and to developing the SCRPC into an effective cadastral agency. These factors made Project outcomes highly sustainable.



At the technical and operational level, the main transitional issue will be the shift from the heavy focus on systematic registration and the one-time effort needed to establish the national title registration system to the client-driven modus operandi of dealing with sporadic registration of market transactions. The institutional capability for this is in place, and the growing volume of such activities handled by the IRCs in the past few years suggests that this will be easily accomplished.

LESSONS LEARNED

The project benefited from being implemented by a single agency which enjoyed very strong leadership. This meant there was no need to navigate through inter-agency rivalries and to balance conflicting vested interests. This is in marked contrast to problems experienced in countries with dual systems such as Bulgaria, Croatia, and Romania. The importance of committed leadership is underscored by other successful cadastre projects in the region such as Kyrgyzstan, Moldova, and Slovenia.

A major problem delayed implementation of the Project when, following appraisal about 320,000 properties could only be registered and titled once various documentation problems were resolved, including missing permits, illegal construction or modification, and encroachment on neighboring parcels or public land. A law was enacted to deal with these problems, but so far there has been reluctance by property owners to “regularize” their problems. Their reluctance is probably attributable to the costs of sorting out all documentation related problems valued an average of US\$265 per property in Yerevan and US\$156 elsewhere, and the obligation to pay property taxes once all documents were cleared.

A number of difficulties were also encountered in titling and registration. Assessing and establishing the legal status of properties and recording them in the cadastral database were more difficult than had been anticipated. Since the cadastral records are also needed for tax assessment purposes, the SCRPC surveyed the floor plans of each property, recorded various other building

data, and checked whether the required construction permits had been obtained. This required considerable time and effort and seriously delayed the completion of cadastral records.

Automation is not necessarily a precondition for providing effective service, such as a one-stop window or one-day turn-around on routine client services. Indeed, aggressively moving towards client-friendly service is more essential for increasing system efficiency and user acceptance than is the transition to a fully computerized environment.

Institutional inertia can be overcome by strong leadership. Inherited bureaucratic practices and procedures with long tradition initially impeded the transformation of the SCRPC from a governmental administration to a client-oriented service agency. Persuaded by Bank missions and recognizing the need for change, SCRPC leadership identified a number of specific and well-targeted actions in key areas and made sure these were implemented. Reducing turn-around time on most service transactions to only one day (even with a paper-based system) was a dramatic departure from past practice and greatly improved the public image of the service.

A systematic cadastre is necessary for an effective and equitable property tax administration. The transition economies experienced a spate of uncontrolled and often unrecorded real estate development led by a rapidly emerging entrepreneurial class. Only a systematic cadastre can effectively capture this development, include it in the property tax base, and eliminate widespread tax evasion.

The Project proactively involved the private sector through competitive contracting, generating substantial efficiency gains and cost savings. It demonstrated the importance of establishing transparent contract management, preferably during a pilot phase. The success of the Project and sustainability of its results suggest it as a useful practical example for future and ongoing land registration projects.

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