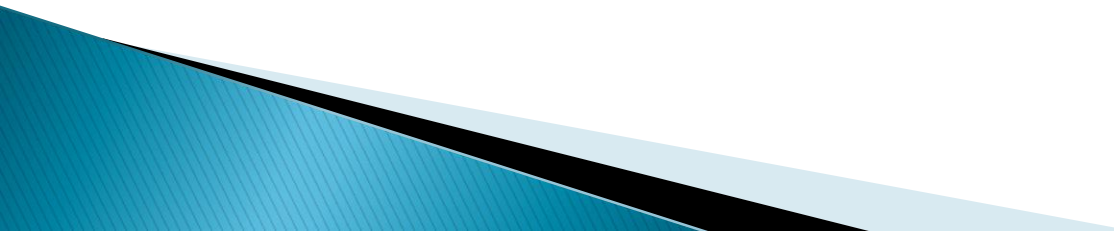


*Session III – Governance in
the Protection of Immovable
Property Rights*

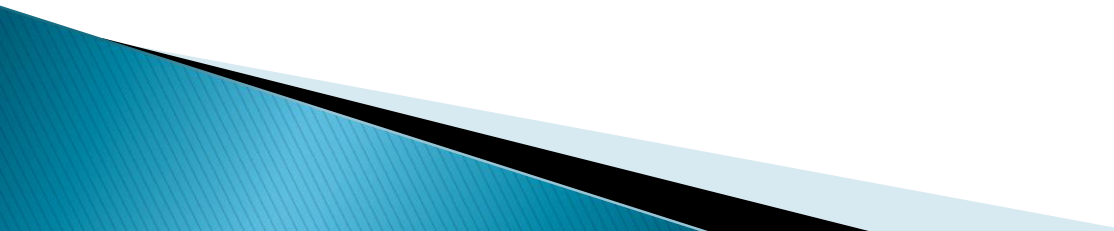
Clelia Rontoyanni, Public Sector Specialist



Analysis conducted under the World Bank's Governance Partnership Facility

- ▶ Issue Brief on Governance in the Protection of Property Rights
 - ▶ Prepared based on research conducted by Mr. Tony Lamb, World Bank consultant
 - ▶ Background paper for the Country Partnership Strategy
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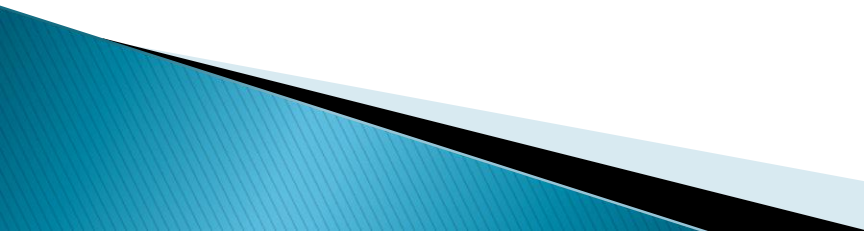
Albania has proven its commitment to protecting private property

- ▶ Overall strong protection of investors' rights (*Doing Business*)
 - ▶ Vibrant property market, especially in urban areas
 - ▶ Generally sound legal framework for immovable property rights, except for some specific issues
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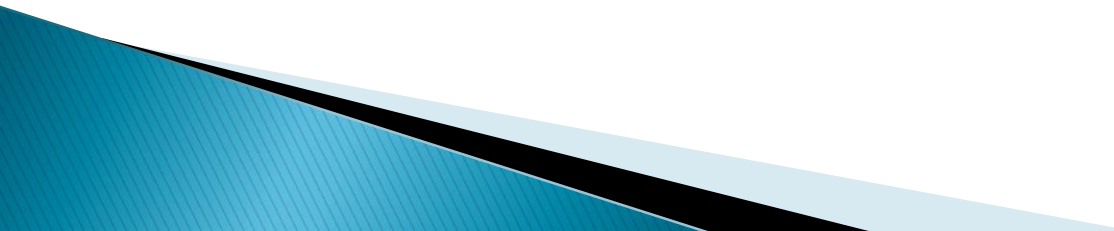
But some weaknesses are holding the economy back

- ▶ Only some 70% of land parcels (83% of rural cadastral zones and 25% of urban cadastral zones) are registered
- ▶ Up to a third of buildings may not be legally transferred or mortgaged due to:
 - 'Restricted' title due to errors or disputes affecting their title registration (including outstanding restitution claims); and/or
 - Lack of construction permit or violation of permit terms
- ▶ Investors report difficulties in obtaining access to land with clear title and obtaining construction permits.
- ▶ Courts lack a clear basis of evidence for adjudicating property-related disputes
 - This deters prospective investors;
 - Leads to delays and has high costs for the parties; and
 - Drives many Albanians to take their cases to the ECHR in Strasbourg → issue raised by CoE Committee, EC Progress Reports and Opinion.

Efforts to solve these weaknesses are underway, but implementation is incomplete

- ▶ Title registration has been mostly sporadic
 - This reduces coverage and gives rise to errors and inconsistencies affecting title security.
 - ▶ Up to 400,000 buildings lack legal registration:
 - Just over 2/3 are part of current legalization process;
 - Only a small share of legalization cases have been completed.
 - ▶ A large number of restitution and compensation claims are still outstanding
 - This slows down the completion of the legalization and title registration processes; and
 - The compensation bill (still unknown) is a large fiscal liability for many years to come.
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A few bottlenecks hinder progress – legalization and compensation

- ▶ **A shortage of funds is delaying the settlement of compensation claims by restitution claimants**
 - Paying full compensation at current market rates is unaffordable.
 - ▶ **A shortfall in the payment of legalization fees by applicants is holding back progress in legalization and depriving the budget of revenues to pay compensation.**
 - ▶ **Insufficient coordination and cooperation between responsible agencies (IPRO, ALUIZNI, AKKP) delays all processes.**
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Bottlenecks – registration and construction licensing

- ▶ **IPRO capacity has improved**, but completing systematic registration and improving data accuracy remain serious challenges.
- ▶ Uneven rules and complicated **procedures for construction permits** discourage compliance and scope for create rent-seeking.
- ▶ 29% of firms said that **informal payments** were expected for **construction permits**—the highest for any business process in Albania; 3 times higher than SEE average (BEEPS 2008).

Construction permits are Albania's second-worst *Doing Business 2011* indicator

Albania's Comparative Performance in Dealing with Construction Permits

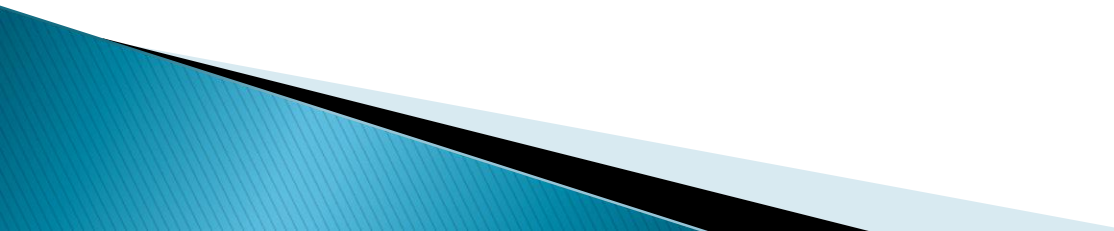
Country	Ranking 2011	Ranking 2010	Procedures (number)	Time (days)	Cost (% of per capita income)
Albania	170	170	24	331	381.3
Greece	51	51	15	169	52.9
Slovenia	63	63	14	199	85.1
Hungary	86	86	31	189	9.8
Croatia	132	145	14	315	850.9
Macedonia, FYR	136	136	21	146	1,601.4
Bosnia & Herzegovina	139	138	16	255	578.1
Montenegro	161	157	19	230	1,215
Serbia	176	174	20	279	1,821.4

Albania's ranking for registering property is better, but can still improve

Albania's Comparative Performance in Registering a Property (*DB 2011*)

Country	Ranking 2011	Ranking 2010	Procedures (number)	Time (days)	Cost (% of property value)
Albania	72	69	6	42	3.4
Hungary	41	60	4	17	5
Macedonia, FYR	69	63	5	58	3.2
Slovenia	97	109	6	113	2.1
Serbia	100	105	6	91	2.7
Bosnia & Herzegovina	103	141	7	33	5.3
Croatia	110	107	5	104	5
Montenegro	116	117	7	71	3.3
Greece	153	107	11	22	12.7

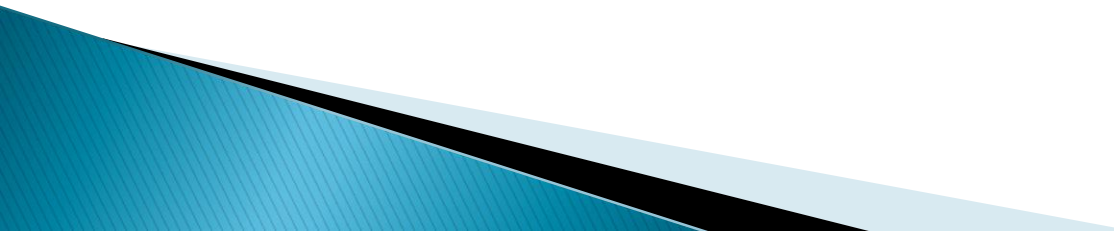
What needs to be done?

- ▶ Speed up payment of compensation to restitution claimants – but ensure it is fiscally affordable
 - ▶ Speed up resolution of legalization applications
 - ▶ Speed up title registration, improve accuracy of IPRO records, and complete systematic registration in urban and high-value areas.
 - ▶ Ensure consistent implementation of urban planning law and improve issuance of construction permits
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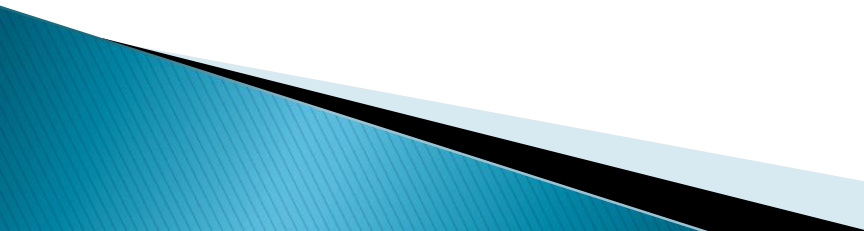
Government has made promising steps to tackle these bottlenecks

- ▶ Property rights strategy is part of Albania's Action Plan for obtaining EU candidate status (January 2011) and is now under preparation;
- ▶ Action Plan on Property Rights (April 2011)
 - Review of compensation scheme for restitution claimants (transitional vs. permanent scheme; review of valuation formula)
 - Creation of coordinating structure under the MoJ
- ▶ Draft legislation on improving the registration process (amendments to Law 7843) has been prepared.

Some policy options for moving forward

- ▶ Ensure that the **property rights strategy** addresses the bottlenecks for completing current processes (title registration, legalization, compensation of restitution claimants) in a coherent manner
 - ▶ Further strengthen **implementation and coordination** among different processes by
 - Setting clear **targets**, assigning **responsibilities** and regularly monitoring and publishing **results**;
 - Better **sharing of data**, technical standards, and harmonization of procedural requirements (IPRO, ALUIZNI, AKKP, Territorial Planning Agency, Construction Inspectorate);
 - Assigning **clear responsibility** for coordination of responsible agencies, e.g. by placing them under a single Cabinet member;
 - Considering possible merger of some agencies with related functions
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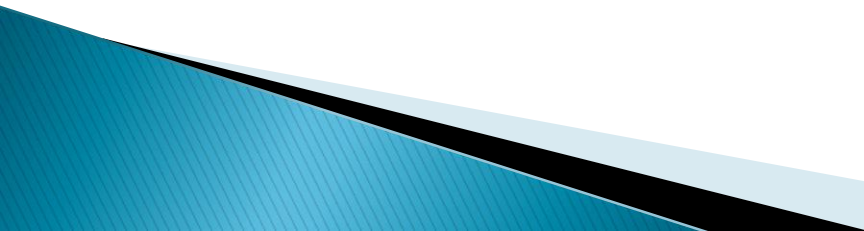
Restitution and compensation options

- ▶ **Accelerate payment of compensation while limiting the fiscal cost →**
 - Revising the valuation formula is unlikely to make the current scheme affordable, will likely cause delays, and might generate new legal challenges by claimants;
 - The transitional compensation scheme might actually increase the cost of compensation.
 - ▶ **Revisit commitment to pay compensation at current market rates for restitution claimants by**
 - Reviewing practices of other CEE and SEE countries; and
 - Organizing a broad public debate on alternative options, costs and trade-offs.
 - ▶ **Consider alternative mechanisms for paying financial compensation (e.g. issuance of bonds).**
 - ▶ **Offer possibility of immediate cash payment at discounted rate for interested claimants.**
 - ▶ **Consider limiting eligible beneficiaries to former owner and direct descendants and/or limiting maximum compensation.**
- 


Some international practices on restitution and compensation

- ▶ Maintaining a market-based approach to compensation but reducing the fiscal cost by
 - Paying market value at the time of confiscation (Latvia)
 - Appraising a property based on its *use* at the time of confiscation (e.g. Macedonia, Montenegro)
 - Limiting the amount of compensation per claim (Croatia, Czech republic, Montenegro)
- ▶ Limiting the cash payments to former owners and compensation to their direct descendants (Croatia, Czech republic)
- ▶ Offering bonds with a long maturity as compensation (Croatia, Czech republic, Macedonia, Montenegro, Slovenia)
- ▶ Dealing with occupiers of restituted properties:
 - Through court-imposed lease agreements (Czech republic)

Legalization – options

- ▶ Consider **scope for further legalization** to reduce the number of illegal properties – but preferably without further expropriation.
 - ▶ Consider possibilities for **resettling people from informal areas** that may not be legalized (due to environmental, cultural heritage, or safety reasons).
 - ▶ Extend clear **legal protection to legalization applicants** while their application is in process.
 - ▶ Ensure prompt **collection of legalization fees**.
 - ▶ Consider a mechanism that derives a greater share of compensation to restitution claimants from beneficiaries of expropriation (e.g. legalization applicants).
 - ▶ Prevent further illegal land occupation and illegal construction by enforcing existing laws.
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Options – Title registration

- ▶ Further strengthen IPRO capacity to conduct systematic registration and improve data accuracy, including by new legal amendments
 - ▶ Prepare action plan for completing systematic first registration in urban and high-value areas.
 - ▶ Consider simplifying registration procedure and costs for low-value rural areas.
 - ▶ Consider assisting disadvantaged and vulnerable groups with title registration
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Options – Urban planning and construction permits

- ▶ Closely monitor implementation of Territorial Planning Law (zoning), including at municipal level.
- ▶ Streamline the issuance of construction permits to slash the number of procedures, costs, and timeframes
 - Current: 24 procedures, 331 days, cost of over 380% of GDP per capita (Doing Business 2011)
 - Compare Slovenia: 18 procedures, 199 days, cost of 85% of GDP per capita
- ▶ Monitor procedural requirements, fees, and timeframes applied by different authorities.

Thank you for your attention

