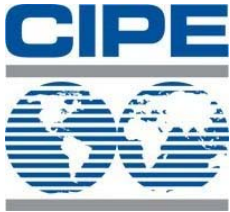


International Property Markets Scorecard Guidebook



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Contact: 1211 Connecticut Ave, NW, Suite 700, Washington, DC 20036, 202-721-9200 www.cipe.org



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With more than 3 billion people living in cities, IHC believes that what happens in cities globally will profoundly shape the world's future. The growing inequity in cities is a critical global concern with many ramifications.

Contact: 5425 Wisconsin Ave, Suite 600, Bethesda, MD 20815 301-718-4824 www.ihcglobal.org/

Personnel

Project Director Anna Kompanek, CIPE, Director, Global Programs

Consultant William Endsley, Principal, World Citizen Consulting, LLC

Methodology Subject Matter Expert Panel

Current

Sylvia Luchini, IHC Global, Senior Director for Practice

Julian Josephs, Georgetown University

Elizabeth Casqueiro, Georgetown University

Steve Nystrom, International Federation of Surveyors

Steve Williams, Real Capital Analytics

Original – September 2009

Chris Barltrop, Sr. Financial Advisor, U.S. Agency for International Development

William Baldrige, International Financial Sector Specialist, USAID

Olivier Hassler, Housing Finance Policy Coordinator, World Bank

Robert Dubinsky, CEO, International Housing Coalition

Norm Flynn, IRPF, President & CEO

Mark Lee Levine, Director, Burns School, University of Denver

Robin Rajack, Sr. Urban Development Specialist, World Bank

Charles Schilke, Johns Hopkins University

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Introduction

The International Property Markets Scorecard (Scorecard) is a tool to assist civil society and development organizations in objectively measuring the effectiveness of property markets. Balanced scorecards help everyone better understand the interconnectedness of international property markets and the critical connections between property market development and overall economic development and growth. Scorecards can be used by investors to assess property market risks and by local reformers to strengthen the institutions that support property markets.

Civil society – especially organizations that support and advise individuals and businesses in completing property transactions and advocate for better laws and regulations governing these transactions – are crucial to healthy property markets. Over the last several decades property markets have accelerated faster than the ability of analysts, advisors and regulators to intermediate between inevitable cycles. Property markets around the world need a common set of rules and local institutions to promote standards, measure performance, protect the public and drive innovation.

Core Elements of Property Markets

1. Property Rights
2. Access to Credit
3. Effective Governance
4. Rational Dispute Resolution
5. Financial Transparency
6. Appropriate Regulation

Financial intermediation is key in a sound economy. The global recession of 2007-2009 clearly showed that the growth of property markets has exceeded the skills of the intermediary professionals necessary to mitigate between cycles of boom and bust.

“During a credit boom that accompanies financial liberalization, the pressures to lend create credit compromises. In environments that lack an adequate base of skills, financial intermediaries do not have the capacity to introduce a sophisticated credit culture and are unable to scrutinize and evaluate the finances of corporations or the value of real estate collateral. In situations that lack reliable financial analysis regarding the viability of loans to corporations or projects, banks lend to projects about which they do not have sufficient financial knowledge. Instead, they rely too heavily on collateral and personal (and implicit government) guarantees. In short, in countries that suffer bubbles, the skills in the financial system are inadequate to measure and assess risk in a deregulated and competitive environment.”¹

Many countries still have a critical shortage of financial intermediation support professionals including informed regulators, attorneys and judges, ethical brokers and valuers, insolvency experts and other analysts and advisors. The Scorecard can be used to highlight how important it is for a country to develop these professionals as well as legal frameworks and institutions that make their work possible.

¹ Michael Pomerleau, “Back to Basics: Critical Financial Sector Professionals Required in the Aftermath of an Asset Bubble,” presented at a conference cosponsored by the Federal Reserve Bank of Chicago and the World Bank Group, October 4 – 6, 2001.

As markets mature and these professionals and institutions are nurtured, they must be continuously developed as market risks become more complex and amplified by liberalization and expansion through securitization.

Different stakeholders – from real estate and finance professional associations and policy analysts through private sector advocacy organizations, government advisors, investors and donors – can use the Scorecard to understand how the Core Elements necessary for property market development form an interrelated system where property laws and land use regulation clearly effect overall economic growth. Scorecards provide a clear, visual representation of the effectiveness of the financial intermediary institutions critical to system soundness. The Scorecard can be used both as a country risk assessment tool and as a catalyst for reforms and the continued development of property institutions as the foundation of democratic empowerment and economic inclusion.

Scorecard Terminology

Core Element

The six Core Elements of the Scorecard are the fundamental mechanism of financial intermediation in property markets. Without strong institutions that support these mechanisms, rational and sustained economic growth cannot occur.

Core Element Map

The Core Element Map is a visual representation of the strength of the institutions that support financial intermediation in property markets. The circle represents the interconnection between the Core Elements, both around and across the circle.

Color Indicator

Color is used to indicate strength. Color gradients – from light to dark – indicate very weak, weak, strong and very strong institutional support.

Lead Indicator

Each Core Element has three Lead Indicators. These indicators assess the essential functions contributing to the success of the Core Element and are likewise crucial to the transparent functioning of the entire property market system.

Sub-Indicator

Each Lead Indicator has three Sub-Indicators. Using data from respected and widely available quantitative or qualitative resources, interviews with local experts and focus groups, Partner Organizations determine the strength of the institutions that support the corresponding Core Element.

Core Question

Core Questions sum up the status of institutional support for the Lead Indicator based on the Sub-Indicators. Simple yes or no questions with brief explanations provide users with a starting point for property market risk assessment.

Survey Questions

Survey Questions are the primary research questions for the Scorecard and participating Partner Institutes. The purpose of these questions is to obtain the crucial data necessary for a complete property market risk assessment.

Field Questions

Field Questions are designed to capture information regarding actual transactions taking place within a market from direct observation. While laws, regulations and institutions may be in place, paramount is how the market actually functions.

Core Element 1 – Property Rights

"A good legal property system is a medium that allows us to understand each other, make connections, and synthesize knowledge about our assets to enhance our productivity."

- Hernando de Soto, *Mystery of Capital*, p. 218



The Scorecard presents the complicated concepts of property markets in an understandable way. It helps countries identify the elements necessary to move from property rights, through financial intermediation and to arrive at efficient and transparent property markets.

The Scorecard highlights the essential linkages between the various microeconomic factors necessary for rational property market development.

The first Core Element is Property Rights. Property rights include more than ownership. The laws that form the foundation of property rights organize and drive the market. Effective property systems represent assets in standardized ways. Institutions that support property markets allow owners to verify and transfer the value of their assets.

Core Element Goal

Property rights that are legally protected, secure, recorded in a single, accurate, widely accessible electronic registry and that lead to high levels of formal ownership for all citizens

Lead Indicator 1.1 – Legal Protection

Core Question:	Does an effective and sufficient legal framework exist to protect property rights for all citizens?
----------------	---

Sub-Indicator 1.1.1 – Legal Framework

In your country, how strong is the protection of property rights, including intellectual property and land administration?

This indicator begins with legal protection. Property rights must be codified into law at the national, state and local levels. The Scorecard uses the World Economic Forum’s *Global Competitiveness Report* as the primary source for the score for this indicator as well as for several other indicators throughout. The numeric score is based on an Executive Opinion Survey of top management business leaders. Countries are then ranked from highest (extremely strong) to the lowest (extremely weak.)

Step 1 Visit the *Global Competitiveness Report* (GCR) website:
<http://reports.weforum.org/global-competitiveness-report-2019/>

[Note: This link is for the 2019 report. Use the most recent report available from www.weforum.org]

Step 2 From the “Select Index Component” dropdown Select “Property Rights”

- Step 3 Find your country on the table.
- Step 4 Record the ranking and numeric score.
- Step 5 Determine the Sub-Indicator score:

Very Strong	1 ST – 35 TH countries
Strong	36 TH – 70 TH countries
Weak	71 ST – 105 TH countries
Very Weak	106 TH – 141 ST countries

Trend either ↑ or ↓ compared to previous years.

[Note: Since the Scorecard uses several indicators from this source, you could record all the scores from this source at this time: from Step 1 above, Step 2 Select your country on the Select Economic dropdown menu, Step 3 Click "Download PDF" on the upper left to download the full report, Step 4 Record all of the scores on your Scoresheet.]

Alternate Source: For countries not listed in the *Global Competitiveness Report*

- Step 1 *Index of Economic Freedom*, the Heritage Foundation:
www.heritage.org/index/
- Step 2 Enter your country in the search box and click.
- Step 3 Record your country's score for "Property Rights"
- Step 4 Click "Rule of Law" and review the information.
- Step 5 Determine the Scorecard Score:

Very Strong	100-80 – Expropriation is highly unlikely
Strong	60-79 – Private property is guaranteed by the government
Weak	30-59 – Expropriation is possible
Very Weak	0-29 – Private property is rarely protected

Sub-Indicator 1.1.2 – Secure Tenure

In your country, how easy is it for private businesses to challenge government actions and/or regulations through the legal system?

In addition to legal protection, owners must have reasonable security of tenure. To use assets as guarantees for long-term loans, banks must be certain the government will not arbitrarily take private property for public use.

Clear, efficient and neutral processes must be in place to allow citizens to challenge the government.

Step 1 From the GCR Index (the same Index accessed in Step 1 above choose "1.08 Efficiency of legal framework in challenging regulations."

Step 2 Find your country on the table.

Step 3 Record the ranking and numeric score.

Step 4 Determine the Sub-Indicator score:

Very Strong	1 ST – 35 TH countries
Strong	36 TH – 70 TH countries
Weak	71 ST – 105 TH countries
Very Weak	106 TH – 141 ST countries

Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 1.1.3 – Bundle of Rights

Survey Question 1 What is the bundle of rights associated with both residential and commercial property ownership?

Since the other Sub-Indicators for this Lead Indicator are based on opinion surveys, it is important to collect actual data regarding property laws to provide balance to the Scorecard.

The bundle of rights theory says that ownership of a parcel of real estate includes many rights, such as the right to occupy and use; the right to sell it in whole or in part; the right to bequeath; or the right to lease for specified periods of time.

In the bundle of rights theory, ownership is compared to a bundle of sticks. Each stick represents a distinct and separate right. It is possible to own all the rights in a parcel of real estate or only a portion of them.

For the Scorecard, record the individual rights in the bundle that can be owned by an individual, group or legal entity. Also record whether those rights can be sold, leased or transferred.

For Survey Questions basic internet research should be conducted using search terms associated with the indicator. For instance for this indicator search "property rights [country]". Only use sources from recent years.

Step 1 Gain a basic understanding of the bundle of rights theory. Visit the Private Land Owner Network Library:
www.privatelandownernetwork.org/article/Bundle-Of-Rights-Approach-To-Value/117/

- Step 2 Visit the Law Library of *Doing Business*:
www.doingbusiness.org/law-library
- Step 3 Click your country the using the alphabetical list.
- Step 4 Click "Land and Building Laws" then "Create Report"
- Step 5 Download laws dealing with land and property
- Step 6 Determine the Sub-Indicator score:
- | | |
|-------------|--|
| Very Strong | Fee simple – an estate without limitations or restrictions |
| Strong | Both residential and commercial land and buildings can be owned with limited government restrictions |
| Weak | The government places significant restrictions on ownership |
| Very Weak | The government holds most of the rights associated with land and buildings |

Determine the Lead Indicator Score for Legal Protection

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores. For example if two of the sub-indicators are weak and one sub-indicator is strong, the lead indicator is likely weak. If the aggregate is hard to determine, e.g. one sub-indicator is very weak, one weak and one strong; base the Score on all the research. For example the strong indicator may be at the bottom of the quartile while the very weak indicator is at the top of that quintile – thus the indicator is weak.

Lead Indicator 1.2 – Registries

Core Question: Does a reliable property registry exist including cadastral, title and mortgage lien information?

Once property rights are protected and secure, it is critical that accurate information about properties is recorded in a central registry. Because clear title is important to convey in any property transaction, the registry should be readily available to owners, buyers, lenders and other parties to a transaction. The more offices that must be visited, officials consulted and steps to obtain information, the more time and costs that are added to the transaction.

Ideally one uniform registry would include cadastral information (information regarding the dimensions and location of a land parcel), ownership information and information about any encumbrances on the parcel such as a mortgage lien or limitation on use.

Sub-Indicator 1.2.1 – Cadastral Information

Survey Question 2 Is cadastral information accessible to the public?

Land transactions begin with a legal description of the land parcel for purchase contracts and other documents. Parties to the transaction need to be sure the legal description in the registry matches the actual land parcel included in the transaction. [Search term: cadastre (country)]

- Step 1 The cadastre is usually created and maintained by a government agency in charge of land such as the Land Ministry. Conduct an Internet search to find the agency in charge of the state/local land cadastre.
- Step 2 Visit the agency's Website to see what information is available.
- Step 3 Consult with local real estate attorneys, brokers, developers and/or valuers and ask about the availability of the cadastre. *Note: these same professionals can be used throughout the Scorecard for Survey and Field Questions.*
- Step 4 Determine a yes or no answer.

Survey Question 3 Is zoning/permitted use information included and are regulations respected and enforced?

In addition to a description, parties to a transaction need to know any restrictions on use for the parcel. Some parcels are set aside for agricultural uses, residential use or commercial zones. Height restrictions, historical preservation and street or waterfront access are also important factors. Purchasers need to know that the parcel involved in the transaction allows their intended use of the land. [Search terms: zoning (country), land use (country)]

- Step 1 Refer to the information gathered in Steps 1-3 in Question 2 above. Was zoning/permitted use information included in the register?
- Step 2 Research/inquire about any additional sources for land use restrictions.
- Step 3 Determine a yes or no answer and record any additional information.

Survey Question 4 Are Geographic Information Systems (GIS) including Global Positioning Satellite (GPS) information used to create and update the registry?

**Civil Society Resource – www.fig.net
International Federation of Surveyors – FIG**

Founded in 1878 in Paris, FIG is the premier international organization for surveyors. It includes national member associations and covers the whole range of professional fields within the global surveying community. It provides an international forum for discussion and development of professional practices and standards.

FIG is a UN-recognized non-government organization (NGO), representing more than 100 countries throughout the world. Its aim is to ensure that the disciplines of surveying and all who practice them meet the needs of the markets and communities that they serve.

Visit the FIG Website to determine if a member association exists in your country. Contact them and seek cooperation with the Scorecard and cadastral registry reforms and improvements

Over the last decades, technology has allowed the profession of land surveying to become very sophisticated. Many tasks that required numerous hours in the field can now be completed using satellite technology. GIS software can now be used to not only collect real time information about property, but to record changes over time. [Search terms: GIS (country), GPS (country)]

- Step 1 Refer to the information gathered in Steps 1-3 in Question 2 above. Was information about the use of GIS and GPS obtained in the previous searches?
- Step 2 Determine a yes or no answer and record any additional information.

Determine the Sub-Indicator score for cadastral information

- Step 1 Review the yes/no answers for Survey Questions 2-4.
- Step 2 Determine the Sub-Indicator Score.

Very Strong	3 yeses
Strong	2 yeses
Weak	1 yes
Very Weak	All no's

Sub-Indicator 1.2.2 – Title Registry

To finalize a property transaction, clear title must be transferred from the seller to the buyer. After determining that the property is properly recorded in the registry, buyers need to know the steps, time and cost to change title from one owner to another.

The Scorecard uses the “Registering Property” data from the *Doing Business* project as the primary source for this Sub-Indicator.

- Step 1 Visit the *Doing Business*: www.doingbusiness.org
- Step 2 From the “Select an economy” drop down select your country.
- Step 3 Record your country’s rank for “Registering Property”.
- Step 4 Click on “Registering Property”
- Step 5 Record the answers to the following questions:
 - 1.2.2.1 What is the number of procedures required to register the transfer of a property from one owner to another?**
 - 1.2.2.2 What is the duration of time in calendar days that it would take to complete the transfer?**
 - 1.2.2.3 What is the total cost of the transfer including all fees, taxes, etc. expressed as a percentage of the value of the property?**
- Step 6 Scroll down and click on “Details – Registering Property” and review.
- Step 7 Determine the Sub-Indicator Score and Trend.
 - Very Strong 1ST – 47TH countries
 - Strong 48TH – 95TH countries
 - Weak 96TH – 142ND countries
 - Very Weak 143RD – 190TH countriesTrend either ↑ or ↓ compared to previous year.

Sub-Indicator 1.2.3 – Mortgage Registry

In addition to details about a property’s legal description and owners, registries should also contain information about mortgage liens against a property. For a title to be completely clear and transferred, mortgage liens or deeds of trust must be paid off.

Survey Question 5 The mandatory use of notaries or similar officials slows down and adds cost to the process. Does a notary need to be involved in the registration process?

Survey Question 6 Is information in the registry available electronically?

Survey Question 7 **Title insurance is indemnity insurance against financial loss from defects in title and from the invalidity or unenforceability of mortgage liens. Is title insurance available to lenders?**

Determine the Sub-Indicator Score.

Very Strong	Question 5, No; Questions 6 & 7, Yes
Strong	Question 5, No; Question 6, Yes, Question 7, No
Weak	Question 5, Yes; Question 6, Yes, Question 7, No
Very Weak	Question 5, Yes; Questions 6 & 7, No

Determine the Lead Indicator Score for Registries

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 1.3 – Formal Ownership

Core Question:	Do citizens understand and trust property rights institutions and avoid the informal sector?
----------------	--

Sub-Indicator 1.3.1 – Land

Survey Question 8 **What is the status of land ownership?**

Property is closely related to power. The use of land is heavily controlled – especially in developing countries. To ensure the responsible use of land, civil society organizations must be in place to demand transparent, sustainable and equitable land use regulation and policy. Countries without sensible land use policies and strong institutions to support individual rights end up with high levels of informal activity in property markets.

- Step 1 Refer to the information gathered in Survey Questions 1 – 3. Write a brief summary of land use regulation regarding private ownership of land for residential and commercial purposes.
- Step 2 Research/inquire about any additional sources for land use regulation and any reforms that may be under way.
- Step 3 Determine the Sub-Indicator Score:

Very Strong	Private agricultural, residential and commercial uses are permitted with minimal government control.
Strong	Private agricultural, residential and commercial uses are permitted with moderate government control.
Weak	Some private ownership is allowed, but most uses are heavily controlled by the government.
Very Weak	All land use is heavily controlled by the government.

Sub-Indicator 1.3.2 – Home Ownership

Survey Question 9 **What is the percentage of formal home ownership?**

Adequate shelter is a basic human need. A functioning housing system is integral to other societal needs such as health and security. Yet more than a billion people live in slums in sub-standard shelter without access to clean water and sanitation. Formal home ownership has many follow-on benefits such as spurring individual advancement and accelerating general economic growth.

- Step 1 Conduct an Internet search to find the agency in charge of housing such as the Housing Ministry.
- Step 2 Visit the agency’s website to see what home ownership statistics are available.
- Step 3 Consult with local real estate developers, brokers or valuers and ask about the housing market. *Note: the complete information gathered in this search can be included in the answer to Field Question 3.*
- Step 4 Visit the Trading Economics website:
<https://tradingeconomics.com/country-list/home-ownership-rate>
- Step 5 Record the % the home ownership percentage.
- Step 7 Determine the Sub-Indicator Score:

Very Strong	70 – 100%
Strong	50 – 69%
Weak	30 – 49%
Very Weak	less than 30%

Trend either ↑ or ↓ compared to previous year.

Civil Society Resources

Global Housing Foundation (GHF) – www.globalhousingfoundation.org

GHF brings together the resources necessary to create housing for the working poor. GHF aims to reach the 350,000,000 urban homeless slum dwellers that are employed or have a source of income and offer them the opportunity to own a sustainable home financed with a GHF 'micro-mortgage'. The micro-mortgage program transforms large numbers of families from slum dwellers to proud homeowners.

Housing Finance Information Network (HOFINET) <http://hofinet.org/>

HOFINET is a quality-assured web portal that consolidates regularly updated international housing finance knowledge in one central, easily accessible place. The site provides consolidated and standardized housing and housing finance sector data by country, research reports, laws and regulations, links to other country data sets and institutions.

Sub-Indicator 1.3.3 – Informal Sector

What is the percentage of informal employment?

In countries where incomes and assets are not equally distributed and where regulation and taxation are excessive, the informal economy – economic activities that are unrecognized, unrecorded, unprotected and unregulated by public authorities – often predominate. In countries with large informal sectors, business activities go unrecorded, taxes are not paid, opportunities for corruption are rampant and many citizens are not able to participate in public policy making.

- Step 1 Visit the International Labor Organization website:
<https://ilostat.ilo.org/topics/informality/>
- Step 2 Find your country on the map, scroll over and record the percentage of people with informal employment.
- Step 3 Consult with local real estate developers, brokers or valuers and ask about the prevalence of informal transactions.
- Step 4 Determine the Sub-Indicator Score

Very Strong Formal Sector	20% or less
Strong Formal Sector	21 – 35%
Weak Formal Sector	36 – 49%
Very Weak Formal Sector	50% or more

Determine the Lead Indicator Score for Formal Ownership

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Determine the Core Element Score for Property Rights

- Step 1 Review the Lead Indicator scores.
- Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

↻ Core Element Linkages

Property Rights ↔ Rational Dispute Resolution

Institutions that support transparent, efficient and equitable resolution when disputes arise over property rights are crucial. This linkage is represented in the Scorecard by placement and color.

The Core Elements Property Rights and Rational Dispute Resolution are located across from each other and have the same colors.

High legal fees, excessive bureaucracy and lengthy waits for contract enforcement restrict property markets. As property markets develop, specialized commercial courts and alternative dispute resolution mechanisms must be developed as well as the capacity of attorneys, judges, insolvency experts and other analysts and advisors.

Please review the information for the Rational Dispute Resolution on page 42.

Field Assessment

Direct observation is required to get a true picture of how markets operate. Laws and regulations may be in place, but the situation on the ground is often quite different from what is recorded in government records.

In addition to Internet research, interviews and survey questions, a Scorecard is not complete without understanding the characteristics of the actual transactions taking place within the market. Ideally a resident and non-resident expert should be paired to assess typical property transactions.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local attorneys, brokers, developers and/or valuers and ask them to tell you about recent transactions involving real property. Be sure to include both residential and commercial properties.
- Step 3 Determine the answers to the following example questions and/or additional questions you tailor to the specific characteristics of your market – especially focusing on where actual experience may differ from laws and regulations:

Field Question 1 What is the actual status of property rights and ownership for citizens including gender parity?

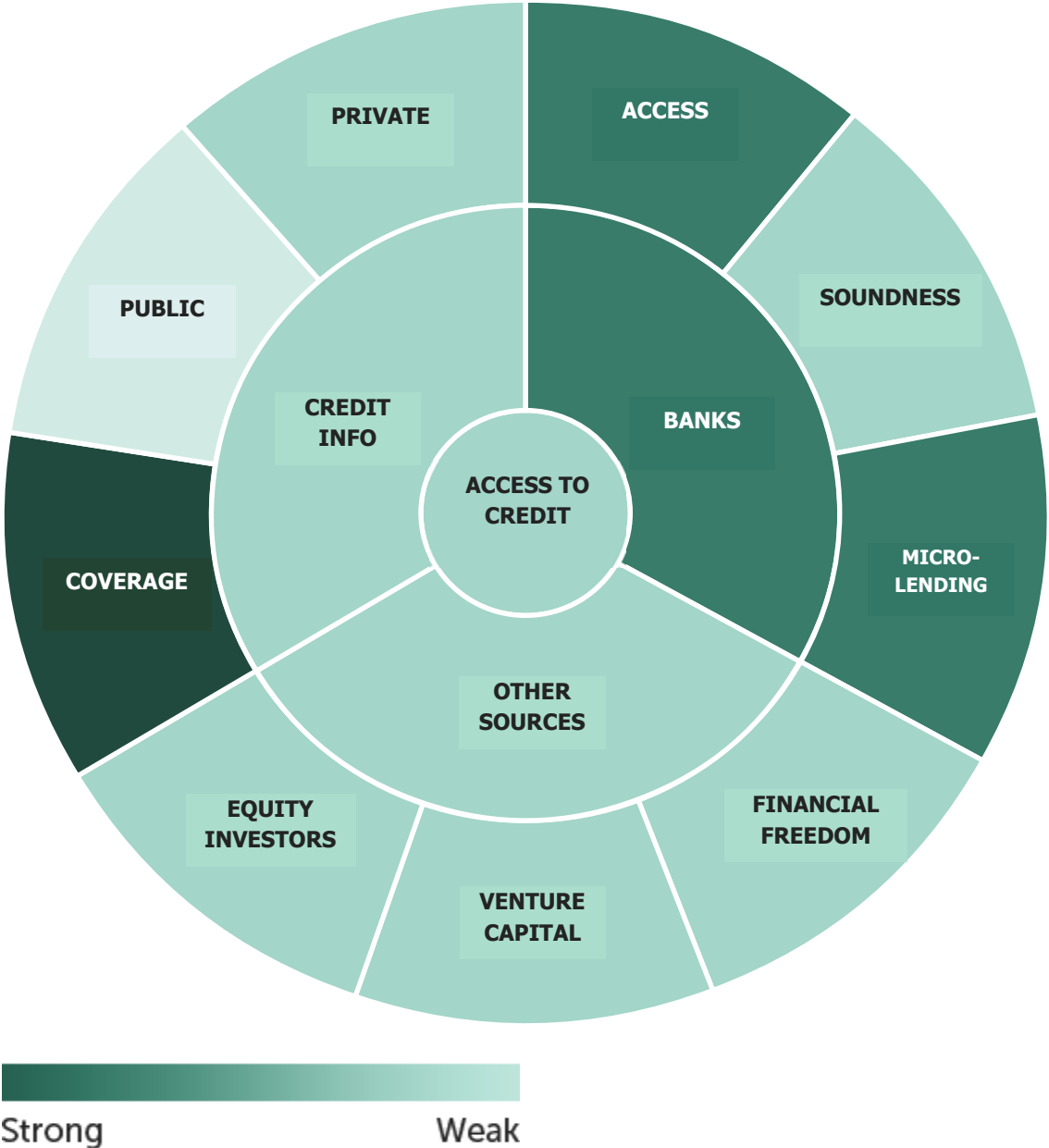
Field Question 2 What is the actual experience of transferring a property?

Field Question 3 What are the actual conditions for people who lease property including small businesses, women, minorities and other marginalized groups?

Core Element 2 – Access to Credit

"Giving the poor access to credit allows them to immediately put into practice what they already know – to weave, to husk rice patty, raise cows, peddle a rickshaw. And the cash they earn is then a tool, a key that unlocks a host of other abilities and allows them to explore their own potential. Often borrows teach each other new techniques that allow them to better use their survival skills. They teach far better than we ever could."

- Muhammed Yunnus, *Banker to the Poor*, p. 140



Legally protected, secure and standardized recording of property rights is only the first step in building property markets. Without the ability to use property as collateral for loans, the titles in owners' hands still represent "dead capital" – assets that cannot be collateralized or sold. Access to credit needs to be available on a scale that corresponds to the development of the market.

Core Element Goal

An efficient, transparent financial sector that provides a broad range of citizens with access to multiple forms of competitive credit so that they can start businesses, build wealth, and purchase property

Over the last decades microfinance has helped bring many of the poor into the financial system using support groups, pooled savings and microloans.

As finance systems develop, property becomes more liquid – homes can be mortgaged for business start-up capital, to finance property improvements and to eventually allow owners to transfer up the property ladder. As banks develop loan repayment histories and understand credit risks, interest rates stabilize. As the financial system becomes more sophisticated, inflation rates subside, property values start to go up and robust

primary mortgage markets evolve into secondary markets where loans can be pooled and securitized into additional capital.

Lead Indicator 2.1 – Banks

Core Question:	Are traditional banking services robust and extensive enough to serve the needs of the population to help them build wealth and purchase property?
----------------	--

Sub-Indicator 2.1.1 – Access

Financial resources provided to the private sector by financial corporations as a percentage of GDP. Financial resources include loans, purchases of non-equity securities, trade credits and other accounts receivable that establish a claim for repayment.

Banks are the predominate source of external funding for individuals and companies. As such they are the central pivot in financial intermediation between the deposits of savers and loans by borrowers. The Scorecard again uses the *Global Competitiveness Report*. The score is the percentage of loans relative to GDP. Countries are then ranked from highest to lowest.

Step 1 Visit the *Global Competitiveness Report* (GCR):
<http://reports.weforum.org/global-competitiveness-report-2019/>

- Step 2 From the "Select Index Component" dropdown Select "9.01 Domestic Credit to the Private Sector"
- Step 3 Find your country on the table.
- Step 4 Record the ranking and percentage score.
- Step 5 Determine the Sub-Indicator score:
- | | |
|-------------|---|
| Very Strong | 1 ST – 35 TH countries |
| Strong | 36 TH – 70 TH countries |
| Weak | 71 ST – 105 TH countries |
| Very Weak | 106 TH – 141 ST countries |
- Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 2.1.2 – Soundness

How sound are the country's banks?

The banking system needs to be sound. Systemic banking crises lead to severe and often long-lasting economic contractions. The resolution of a banking crisis entails a significant amount of costly government intervention. The added public debt must be serviced over time, which means that the social costs of systemic banking crises are very serious. Banks should have accurate information about the collateral backing loans and significant reserves to weather downturns in economic cycles.

- Step 1 From the GCR Index Component select "9.06 – Soundness of banks" (as in Step 1-2 above).
- Step 2 Find your country on the table.
- Step 3 Record the ranking and numeric score from this external source.
- Step 4 Determine the Sub-Indicator score:
- | | |
|-------------|---|
| Very Strong | 1 ST – 35 TH countries |
| Strong | 36 TH – 70 TH countries |
| Weak | 71 ST – 105 TH countries |
| Very Weak | 106 TH – 141 ST countries |
- Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 2.1.3 – Microlending

A loan of a few hundred dollars will make a huge difference in the lives of a poor family. It will give them the ability to purchase livestock for a small farm, a sewing machine to help make accessories and clothes, or supplies for a small store. Microlending customers have excellent repayment histories. Microfinance thus allows citizens without traditional creditworthiness to build a credit history and work toward participation in the traditional banking sector.

The Scorecard uses the Microfinance Information Exchange (MIX) for the score for this indicator.

- Step 1 Conduct an Internet search using “Microlending [country name]” to obtain additional information about Microlending in your country.
- Step 2 Visit the MIX Market website: www.themix.org/mix-market
- Step 3 Click View Data
- Step 4 Click the Data & Resources Tab then Databank access
- Step 5 Scroll down and choose your country, click select all box
- Step 6 Click Add series at the from the upper middle menu and then scroll down and click “Number of active borrowers, local urban”, and then close the box.
- Step 7 Click Add time and choose the 3 most recent years. Close the selection box.
- Step 8 Click Apply changes and review the data.
- Step 9 Determine the Sub-Indicator Score:

Very Strong	Numerous institutions have recently reported in the country and have large number of active borrowers.
Strong	Several institutions are operating in the country.
Weak	Some institutions are operating in the country.
Very Weak	Few microfinance institutions operating in the country

Determine the Lead Indicator Score for Banks

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 2.2 – Other Sources

Core Question: Are entrepreneurs free to raise capital outside the banking system including venture capital and/or by issuing stock in a well-regulated stock exchange?

Sub-indicator 2.2.1 – Financial Freedom

How much control does the government exert over financial services?

Excessive banking and financial regulation by the state limits competition, impedes efficiency, and increases costs. Government ownership of banks and high levels of intervention in non-banking financial services undermines the ability of markets to provide services that reflect true market conditions and risks. The Scorecard used the *Index of Economic Freedom* from the Heritage Foundation as the source for the score for this indicator and others. The hundred-point scale goes from repressive (0 – no private financial institutions) to negligible government intervention (100 – no government owned financial institutions).

- Step 1 Visit the *Index of Economic Freedom* Website:
www.heritage.org/index/
 - Step 2 Enter your country in the “Find Your Country” search box and click.
 - Step 3 Record the “Financial Freedom” score.
 - Step 4 Click “Open Markets” and review the information.
 - Step 5 Determine the Sub-Indicator Score
- | | |
|-------------|---------------------------|
| Very Strong | 100 – 80 – Mostly free |
| Strong | 60 – 79 – Moderately free |
| Weak | 30 – 59 – Mostly unfree |
| Very Weak | 0 – 29 – Repressed |

Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 2.2.2 – Venture Capital

How easy is it for entrepreneurs with innovative but risky projects to find venture capital?

In the developing world many private real estate and financial service companies are relatively new. These companies are too small to raise capital in the public markets and have not reached the point where they are able to secure large bank loans. Venture capital is often invested in this type of small, less mature company.

In exchange for the high risk that venture capitalists assume, they usually get significant control over company decisions and a significant portion of the company's ownership and profits when sold. The *Global Competitiveness Report* ranks countries from highest (extremely easy to obtain venture capital) to the lowest (extremely difficult.)

- Step 1 Visit the *Global Competitiveness Report* (GCR):
<http://reports.weforum.org/global-competitiveness-report-2019/>
- Step 2 From the "Select Index Component" dropdown Select "9.03 Venture Capital Availability"
- Step 3 Find your country on the table.
- Step 4 Record the ranking and numeric score from this external source.
- Step 5 Determine the Sub-Indicator score:
 - Very Strong 1ST – 35TH countries
 - Strong 36TH – 70TH countries
 - Weak 71ST – 105TH countries
 - Very Weak 106TH – 141ST countriesTrend either ↑ or ↓ compared to previous year.

Sub-Indicator 2.2.3 – Equity Investors

Total value of listed companies as a percentage of GDP. The total value is calculated as the price of all listed domestic companies multiplied by the number of their outstanding shares.

As companies develop and highly competent management teams execute well-developed business models, they can grow to the point of going public with an initial public stock offering (IPO) to raise more capital for continued growth. Investment banks and teams of analysts need to be in place to support IPOs.

- Step 1 From the GCR "Index" (the same accessed in Step 1-2 above), select Table 9.04 "Market Capitalization."
- Step 2 Find your country on the table.
- Step 3 Record the ranking and numeric score from this external source.
- Step 4 Determine the Sub-Indicator score:
 - Very Strong 1ST – 35TH countries
 - Strong 36TH – 70TH countries

Weak 71ST – 105TH countries
Very Weak 106TH – 140TH countries

Trend either ↑ or ↓ compared to previous year.

Determine the Lead Indicator Score for Other Sources

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 2.3 – Credit Information

Core Question: Is comprehensive credit information available through public and private credit sources?

Information needed to make reliable credit decisions includes a potential borrower’s income and the value of the collateral put up for a loan. To make the most reliable decisions and to price the potential risk, providers of credit also need to know information on a borrower’s credit history. Does the potential borrower already have other outstanding debts? Have those debt payments been paid on time? Accurate positive and negative information on both individuals and companies needs to be recorded by credit agencies and made available to lenders and borrowers. The Scorecard uses the “Getting Credit” data from the *Doing Business* project as the primary source for this Indicator.

- Step 1 Visit *Doing Business*: www.doingbusiness.org
- Step 2 Scroll down to the “select an economy” drop down select your country.
- Step 3 Record your country’s rank for “Getting Credit” for the current and previous year.
- Step 4 Click on “Getting Credit”
- Step 5 Record the answers and scores to the following questions:

Sub-Indicator 2.3.1 – Coverage

What is the depth of credit information available?

Very Strong 7-8
Strong 5-6
Weak 3-4
Very Weak 1-2

Sub-Indicator 2.3.2 – Public Credit Registry

What is the extent of public credit registry coverage?

Very Strong	25% and greater
Strong	10% - 24.9%
Weak	Less than 10%
Very Weak	No public credit bureau

Sub-Indicator 2.3.3 – Private Credit Bureau

What is the extent of private credit bureau coverage?

Very Strong	50% and greater
Strong	20% - 49.9%
Weak	Less than 20%
Very Weak	No public credit bureau

- Step 6 Click on “Details” and review the information to get a better understanding of the status of credit information in your country.

Determine the Lead Indicator Score for Credit Information based on the aggregate of the sub-indicators.

Trend either ↑ or ↓ compared to previous year.

Determine the Core Element Score for Access to Credit

- Step 1 Review the Lead Indicator scores.
- Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

↻ Core Element Linkages

Access to Credit ↔ Financial Transparency

To make responsible credit decision, banks and non-bank financial service providers need accurate, accessible data in standardized formats on actual sales prices and operating costs for properties. Well trained, independent and ethical asset valuers must be in place.

Transparent financial reporting by public companies, continuous development of financial markets and processes for the orderly dissolution of companies and the redistribution of assets also are needed.

Without databases of true market data and highly-trained property market analysts, markets will be slow to develop and be vulnerable to extreme cycles of boom and bust as well as longer periods of recovery.

This linkage is represented in the Scorecard by placement and color. The Core Elements Access to Credit and Financial Transparency are located across from each other and have the same colors.

Please review the information for the Financial Transparency on page 53.

Field Assessment

No matter how small or informal, property transactions are taking place in every market. While many developing markets are still largely cash-based, international investment and financing continues to grow as investors seek new markets and higher returns.

In addition to Internet research, interviews and survey questions, investigate the actual transactions taking place within the market that include some form of financing.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local banks, brokers, developers and/or valuers and ask them to tell you about recent transactions that involved financing. Be sure to include both residential and commercial properties.
- Step 3 Determine the answers to the following questions and/or additional questions you tailor to the specific characteristics of your market:

Field Question 4 **How available are mortgage loans for purchasing property, who is the typical user and what are the prevailing trends?**

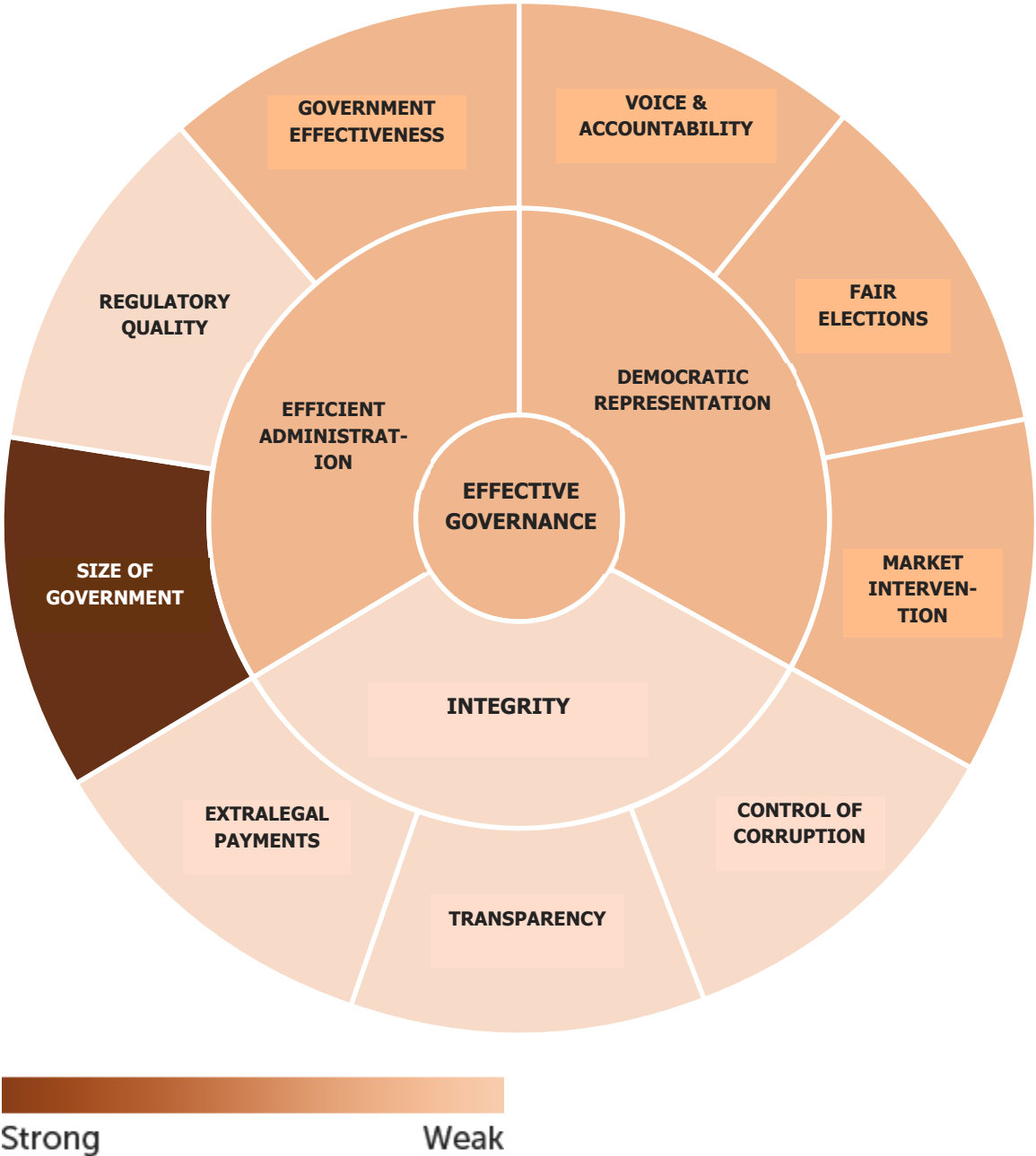
Field Question 5 **What are the interest rates, term and loan-to-value ratios?**

Field Question 6 **Are there any informal barriers to borrowing such as for women or minorities?**

Core Element 3 – Effective Governance

"The protection and promotion of the universal human values of the rule of law, human rights and democracy are ends in themselves. They are also essential in a world of justice, opportunity and stability. No security agenda or drive for development will be successful unless they are based on the sure foundation of respect for human dignity."

- Kofi Annan, *In Larger Freedom*, p. 47



Effective governance requires the trust of the people. Good governance procedures ensure that the opinions of all rather than just the opinions of the elite and powerful are represented in the governing of a country, a company or an organization. Institutions that help achieve the proper balance between representing the views of those who hold power and the citizens they serve are critical not only to political stability, but to the functioning of property markets. Achieving broad-based representation as well as transparency in decision-making through good governance is essential to the credibility of governments, regulatory bodies and the policymaking process.

For property markets to attract foreign direct investment, governments must be representative, limit corruption and allow the flourishing of private enterprise. An efficient and well-trained civil service that can implement policies and regulations fairly must be in place. Markets where deals are only made between connected insiders, where unofficial payments must be made or connections used to obtain permits, get licenses or access to resources deter large institutional investors such as multinational banks, insurance companies and pension funds. These investors will skip over such opaque countries and place their money where they can transparently price their risk.

Core Element Goal

A popularly elected government limiting and combating corruption and functioning efficiently and transparently enough to guarantee economic freedom to individuals and support equitable property markets

Lead Indicator 3.1 – Democratic Representation

Core Question:	Does the country have free and open elections for the leadership and can citizens engage in free enterprise?
----------------	--

Sub-Indicator 3.1.1 – Voice & Accountability

Rights, power and representation require that voices be heard and leadership be held accountable. Citizens must not only be able to participate in the democratic process but have confidence in and trust that process. Citizens must be informed by a free media and free to take collective action in the form of civil society organizations. The Scorecard uses two indexes that aggregate numerous sources for this sub-indicator.

3.1.1.1 Are citizens able to elect their government and do they enjoy freedom of expression, association and a free media?

- Step 1 Visit the World Bank’s *Governance Matters*:
<http://info.worldbank.org/governance/wgi/Home/Reports>
- Step 2 Click the “Table View” tab mid-page.

- Step 3 Under the “Years” drop down choose the three most recent years.
- Step 4 Select your country.
- Step 5 Record the score for “Voice & Accountability,” note the trend from previous years.
- Step 6 Determine a yes/no answer and Score for this question:
- | | | |
|-----|-------------|----------|
| Yes | Very Strong | 75 – 100 |
| | Strong | 50 – 74 |
| No | Weak | 25 – 49 |
| | Very Weak | 0 – 24 |

3.1.1.2 Are citizens free to form political and civic organizations free of state interference and surveillance? (Civil Liberties)

- Step 1 Review the Economist Democracy Index:
https://en.wikipedia.org/wiki/Democracy_Index
- Step 2 Scroll down and find your country. Record the overall “Rank” and score for “V - Civil Liberties”
- Step 3 Determine a yes/no answer and Score for this question based on the overall rank:
- | | | |
|-----|-------------|---------------------------------------|
| Yes | Very Strong | 1 ST – 41 ST |
| | Strong | 42 ND – 84 TH |
| No | Weak | 85 TH – 126 TH |
| | Very Weak | 127 TH – 167 TH |

Determine the Sub-Indicator Score based on the scores from the two indexes.

Sub-Indicator 3.1.2 – Fair Elections

Citizens need access to information. The power associated with leadership can lead to public resources being used for personal gain. To participate fully in the legislative and regulatory process, citizens also need unfettered access to legislation and implementing regulations throughout the process. The Scorecard uses the *The Freedom House – World Freedom Report* for this indicator. The *World Freedom Report* assessing the condition of political rights and civil liberties around the world.

3.1.2 Do citizens enjoy a wide range of political rights including free and fair elections?

- Step 1 Visit the *Freedom House – World Freedom Report* website:
<https://freedomhouse.org/report/freedom-world/freedom-world-2019>
- Step 2 Click Countries from the top menu.
- Step 3 Find your country.
- Step 4 Record the Aggregate Score
- Step 5 Determine the Sub-Indicator Score:
- | | | |
|-----|-------------|----------|
| Yes | Very Strong | 75 – 100 |
| | Strong | 50 – 74 |
| No | Weak | 25 – 49 |
| | Very Weak | 0 – 24 |

Sub-Indicator 3.1.3 – Market Intervention

Economic freedom is the fundamental right of every citizen to control their own labor and property. Economically free societies allow individuals choice in how to work, produce, consume, and invest. In economically free societies, governments allow labor, capital and goods to move freely and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself. The *Index of Economic Freedom* ranks countries from repressive government control (0) to the freest economies (100).

- Step 1 Visit the *Index of Economic Freedom* website: www.heritage.org/index/
- Step 2 Enter your country in the “Find Your Country” search box and click.
- Step 3 Record the “World Rank” for your country.

3.1.3 To what extent does the government control prices?

- Step 4 Record the score for “Monetary Freedom” and read the summary for Regulatory Efficiency.
- Step 5 Determine the Sub-Indicator Score based on the “World Rank:”
- | | |
|-------------|---|
| Very Strong | 1 ST – 45 TH countries |
| Strong | 46 TH – 90 TH countries |
| Weak | 91 ST – 135 TH countries |
| Very Weak | 136 TH – 180 TH countries |

Trend either ↑ or ↓ compared to previous year.

Determine the Lead Indicator Score for Democratic Representation

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 3.2 – Integrity

Core Question: Is the public sector transparent and the control of corruption effective?

Corruption is the abuse of entrusted power for private gain. It hurts everyone whose life, livelihood or dignity depends on the integrity of people in a position of authority. Corruption is both a cause of poverty, and a barrier to overcoming it. Human rights are denied where corruption is rife, because a fair trial comes with a hefty price tag where courts are corrupted. Corruption distorts national and international trade. Those with less power are particularly disadvantaged in corrupt systems, which typically reinforce discrimination against women and minorities.

Sub-Indicator 3.2.1 – Transparency

What is the perceived level of corruption in the country?

- Step 1 Visit Transparency International’s *Corruption Perceptions Index*: www.transparency.org/research/cpi
- Step 2 Choose the CPI from the most recent year.
- Step 3 Scroll down to the “Results table”
- Step 4 Find your country.
- Step 5 Record the score.
- Step 6 Determine the Sub-Indicator Score:

Very Strong	Score 75 - 100
Strong	Score 50 – 74
Weak	Score 26 – 49
Very Weak	Score 0 – 25

Trend either ↑ or ↓ compared to previous year using the Year dropdown.

Sub-Indicator 3.2.2 – Control of Corruption

How effective is the government in controlling corruption?

- Step 1 Visit the World Bank’s *Worldwide Governance Indicators*: <http://info.worldbank.org/governance/wgi/Home/Reports>
- Step 2 Click the “Table View” tab mid-page.

- Step 3 Under the “Years” drop down choose the three most recent years.
- Step 4 Select your country.
- Step 5 Record the score for “Control of Corruption,” note the trend from previous years.
- Step 6 Determine the Sub-Indicator Score for this question:
 - Very Strong 75 – 100
 - Strong 50 – 74
 - Weak 25 – 49
 - Very Weak 0 – 24

Sub-Indicator 3.2.3 – Extralegal Payments

How often do companies report that officials/and or companies expect bribes to “expedite” services or gain business?

Extralegal or unofficial payments distort economies and divert resources and services from their equitable use. In developing economies, civil service salaries are usually very low and thus officials often depend on additional payments outside listed fees not only to provide services, but to take care of their families.

In the developed world, these payments often take the form of kick-backs. While ethical brokers and agents have an established and contracted referral fee system, other parties to a real estate transaction such as officials in charge of approvals, attorneys, valuers, lenders, mortgage brokers, and others should not be receiving money or extravagant gifts outside their listed fees for services.

- Step 1 Consult with local real estate attorneys, brokers, developers and/or valuers and ask about the prevalence of kick-backs among market participants.
- Step 2 Visit the *Enterprise Surveys* website:
www.enterprisesurveys.org
- Step 3 From the “Select a topic” dropdown Select “Corruption”
- Step 4 Find your country on the table.
- Step 5 Record the Bribery incidence %.
- Step 6 Determine the Sub-Indicator score:
 - Very Strong 1 – 5%
 - Strong 6 – 15%

Weak	16 – 30%
Very Weak	31% and above

Determine the Lead Indicator Score for Integrity

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 3.3 – Efficient Administration

Core Question:	Are quality services and qualified civil servants available to the public through the efficient use of public money?
----------------	--

Democratic representation, free markets and the control of corruption are dependent on an educated and efficient civil service. The civil service needs to be protected from political pressures and civil servants need to have high levels of training in policy development and implementation. Excessive bureaucracy and red tape for property transactions are not only an inefficient use of resources, but they can drive transactions underground, distort markets and reduce tax revenues. The more resources spent on inefficient government operations and subsidized programs, the less available for private enterprise.

Sub-Indicator 3.3.1 – Size of Government

What is the size of government relative to GDP?

- Step 1 Refer to the information gathered from the “Government Spending” section of the *Index of Economic Freedom* in question 3.1.3.1 – percentage of government spending related to GDP.
- Step 2 Determine the Sub-Indicator Score:

Very Strong	Less than 25%
Strong	25 – 30%
Weak	31 – 40%
Very Weak	More than 40%

Sub-Indicator 3.3.2 – Regulatory Quality

What is the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development?

- Step 1 Visit the World Bank's *Worldwide Governance Indicators*:
<http://info.worldbank.org/governance/wgi/Home/Reports>
- Step 2 Click the "Table View" tab mid-page.
- Step 3 Under the "Years" drop down choose the three most recent years.
- Step 4 Select your country.
- Step 5 Record the score for "Regulatory Quality," note the trend from previous years.
- Step 6 Determine the Sub-Indicator Score:
- | | |
|-------------|----------|
| Very Strong | 75 – 100 |
| Strong | 50 – 74 |
| Weak | 25 – 49 |
| Very Weak | 0 – 24 |
- Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 3.3.3 – Government Effectiveness

What is the overall effectiveness of the government?

- Step 1 Visit the World Bank's *Worldwide Governance Indicators* as above.
- Step 2 Record the score for "Government Effectiveness," note the trend from previous years.
- Step 3 Determine the Sub-Indicator Score:
- | | |
|-------------|----------|
| Very Strong | 75 – 100 |
| Strong | 50 – 74 |
| Weak | 25 – 49 |
| Very Weak | 0 – 24 |
- Trend either ↑ or ↓ compared to previous year.

Determine the Lead Indicator Score for Government Effectiveness

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Determine the Core Element Score for Effective Governance

- Step 1 Review the Lead Indicator scores.
- Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

↻ Core Element Linkages

Effective Governance ↔ Appropriate Regulation

While governments may have transparent and democratic elections, open and progressive laws and an efficient civil service, without implementing regulations and appropriate supervision, markets can still spiral out of control.

This linkage is represented in the Scorecard by placement and color. The Core Elements Effective Governance and Appropriate Regulation are located across from each other and have the same colors.

Particularly important for property markets is a fair tax regime based on accurate market values, the licensing and disciplining of property market professionals and the prudent regulation of capital markets.

Please review the information for Appropriate Regulation on page 66.

Field Assessment

The multiple Internet sources used for the Effective Governance Core Element represent extensive and well researched indexes that deal with the broad view of how governments work. They can be used to provide additional details about democratic processes and levels of corruption. What they do not provide, however, is information about how this general environment directly affects property markets. Many critical details about dealing with the government can only be gathered by first-hand experience and talking with people who have successfully navigated national, state and local bureaucracies.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local property owners and managers, brokers, developers and/or valuers and ask them to tell you about recent experiences dealing with government officials. Be sure to include information about how local and state regulation/implementation may differ or conflict.

Step 3 Determine the answers to the following question and/or additional questions you tailor to the specific characteristics of your market:

Field Question 7 **What is the actual experience of practitioners in dealing with the government?**

Core Element 4 – Rational Dispute Resolution

"Everyone is entitled in full equality to a fair and public hearing by an independent and impartial tribunal, in the determination of his rights and obligations and of any criminal charge against him."

-Universal Declaration of Human Rights – Article 10



Strong Weak

Courts are the public arbitrators of fairness and equality before the law. Without an independent and accessible court system, inequalities of property and power can be perpetuated for generations. The conflict between the “landed gentry” who held property rights in perpetuity and the merchant classes in feudal England led to the creation of the property rights system that governs much of the Western world today. This system recognizes that diversification of ownership and the rise of a politically powerful middle class are essential to the development of not only property markets, but the broader democratic and economic development brought about by entrepreneurs and innovation.

Core Element Goal

An efficient institutional framework that balances the rights of the public, owners, lenders and borrowers in the event of a dispute or loan default

In many parts of the world, citizens are still locked out of the power that comes from ownership. Access to the courts is too costly for most people and the judiciary is often highly influenced by entrenched political powers. Even in countries with developed civil or common law systems, contract enforcement is complicated, slow and costly – not only in direct costs, but in opportunity costs when properties sit vacant and unused.

Fully functioning property markets require that specialized commercial courts be developed to deal with property disputes outside the criminal court system.

Respected alternative dispute resolution methods completely outside the courts are also excellent means of fairly and efficiently dealing with conflict and building property value. Finally, bilateral commercial treaties between countries and regions are also essential in today’s global investment market.

Lead Indicator 4.1 – Rule of Law

Core Question: Do all market participants abide by the rule of law and have confidence in the courts and ability of the police to control crime?

The rule of law is the cornerstone for all other elements of democracy. A free and fair political system, protection of human rights, a vibrant civil society, public confidence in the police and the courts, and economic development all depend on accountable governments, fair and accessible application of the law, and respect for international human rights standards.

In post-conflict settings, reestablishing the rule of law is the first step in the rebuilding process. Establishing peace and security and rebuilding justice institutions can help to develop the necessary climate for reconciliation, public confidence, and subsequent economic growth.

Sub-Indicator 4.1.1 – Impartiality


What is the confidence level of the impartiality of the police, courts and contract enforcement?

- Step 1 Visit the World Bank's *Worldwide Governance Indicators*.
<http://info.worldbank.org/governance/wgi/Home/Reports>
- Step 2 Click the "Table View" tab mid-page.
- Step 3 Under the "Years" drop down choose the three most recent years.
- Step 4 Select your country.
- Step 5 Record the score for "Rule of Law," note the trend from previous years.
- Step 6 Determine the Sub-Indicator Score:
- | | |
|-------------|----------|
| Very Strong | 75 – 100 |
| Strong | 50 – 74 |
| Weak | 25 – 49 |
| Very Weak | 0 – 24 |
- Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 4.1.2 – Judiciary

Can members of the judiciary be held accountable for their actions?

Judges are often the final arbiter in a property dispute. It is therefore crucial that citizens have confidence that judges are appointed fairly. Judges at all levels should be held accountable for their actions. Conflict of interest regulations should be in place and enforced and citizens should be able to gain enough information about judges to discern whether a potential conflict exists.

- Step 1 Visit the *Index of Economic Freedom* website www.heritage.org/index/
- Step 2 Enter your country in the "Find Your Country" search box and press  search.
- Step 3 Record the score for "Judicial Effectiveness" and read the summary for Rule of Law.
- Step 5 Determine the Sub-Indicator Score:
- | | |
|-------------|---------------------------|
| Very Strong | 100 – 80 – Mostly free |
| Strong | 60 – 79 – Moderately free |
| Weak | 30 – 59 – Mostly unfree |
| Very Weak | 0 – 29 – Repressed |
- Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 4.1.3 – Security

What is the security situation in the country including crime, terrorism and the reliability of the police?

Business hates uncertainty. For property markets to thrive, investors must have confidence in the security situation of a country. Excessive costs to hire private security, loss of property due to violence or civil unrest, or internal theft from employees and managers add to the costs of doing business. Countries must have a stable security environment to grow the domestic private sector and attract foreign investment.

- Step 1 Visit the *Global Competitiveness Report* (GCR):
<http://reports.weforum.org/global-competitiveness-report-2019/>
- Step 2 From the "Select Index Component" dropdown Select "Security"
- Step 3 Find your country on the table.
- Step 4 Record the ranking and numeric score from this external source.
- Step 5 Determine the Sub-Indicator score:
 - Very Strong 1ST – 35TH countries
 - Strong 36TH – 70TH countries
 - Weak 71ST – 105TH countries
 - Very Weak 106TH – 141ST countriesTrend either ↑ or ↓ compared to previous year.

Determine the Lead Indicator Score for Rule of Law

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 4.2 – Enforcement of Contracts

Core Question:	Are systems in place for timely and efficient enforcement of contracts?
----------------	---

Sub-Indicator 4.2.1 – Judicial Enforcement

Commercial Property

The ability to make and enforce contracts and resolve disputes is fundamental if markets are to function properly.

Good enforcement procedures enhance predictability in commercial relationships and reduce uncertainty by assuring investors that their contractual rights will be upheld promptly by local courts. When procedures for enforcing commercial transactions are bureaucratic and cumbersome or when contractual disputes cannot be resolved in a timely and cost-effective manner, market actors depend more heavily on personal and family contacts. Banks reduce the amount of lending because they cannot be assured of the ability to collect on debts or obtain control of property pledged as collateral to secure loans.

- Step 1 Visit the *Doing Business*: www.doingbusiness.org
- Step 2 From the “select an economy” drop down select your country.
- Step 3 Record your country’s rank for “Enforcing Contracts” for the current and previous year.
- Step 4 Click on “Enforcing Contracts”
- Step 5 Record the answers and scores to the following questions:
 - 4.2.1.1 What is the quality of the judicial process?**
 - 4.2.1.2 What is the time between the filing of a lawsuit and resolution in judicial enforcements?**
 - 4.2.1.3 What is the cost of judicial enforcements as a percentage of claim value?**
- Step 6 Determine the Sub-Indicator Score and Trend.

Very Strong	1 ST – 47 TH countries
Strong	48 TH – 95 TH countries
Weak	96 TH – 142 ND countries
Very Weak	143 RD – 190 TH countries

Trend either ↑ or ↓ compared to previous year.

Residential Property

An efficient and timely foreclosure process is important for residential property markets. In some countries the law gives excessive protections to borrowers who may have fallen on hard times, and these protections can impose substantial costs on lenders. When lenders adjust for these costs, the outcome can be higher interest rates, larger down payments or credit rationing.

A faster process provides greater certainty in realizing collateral rights and thus lower risks for the creditor of lost interest and principal or a deterioration in the value of property because of vandalism or poor property maintenance.

It also means lower costs—and thus greater proceeds from the sale of the home. Faster processes benefit both the creditor and the debtor as well as benefits the government, through greater tax revenue.

Consult with local bankers, real estate attorneys, brokers and valuers and determine the answers to the following questions (including Survey Questions 12, 13, 14 & 15), *Note: the complete information gathered in these interviews can be included in the answer to Field Question 8.*

Survey Question 10 What is the time between notice of intent to foreclose and loan collection in judicial enforcements?

Survey Question 11 What is the cost of judicial enforcements as a percentage of property value?

Sub-Indicator 4.2.2 – Summary Proceedings

A requirement of judicial foreclosure means that a creditor cannot sell collateral without first going through the courts to obtain a court judgment on the debt and an order of execution to take the property. That can raise lenders’ foreclosure costs and considerably lengthen the time to complete return the property to the market. Homes in foreclosure can then sell for less because of possible greater deterioration of the property during the longer process.

An alternative to a full judicial foreclosure is a summary proceeding. In a summary proceeding a creditor can skip the judgment phase and apply directly for an order of execution against the property. This can be done by presenting a simple case by affidavit, with or without the debtor appearing. Summary proceedings place a greater burden on the debtor to stop the sale of the property. They can be converted into full judicial proceedings by lodging permitted defenses. Often the availability of a summary proceeding hinges on the existence of a loan agreement or similar document that does away with the need to prove the debt.

Survey Question 12 What is the time between notice of intent to foreclose and loan collection in summary proceedings if available to lenders?

Survey Question 13 What is the cost of summary proceeding if available to lenders as a percentage of property value?

Determine the Sub-Indicator Score.

- Very Strong Summary proceedings are allowed by law and the predominant method of judicial foreclosure.
- Strong Summary proceedings are allowed by law and used frequently by lenders.

Weak Summary proceedings are allowed by law but not in use in the market.

Very Weak Summary proceedings are not available to lenders.

Sub-Indicator 4.2.3 – Power-of-Sale

Another alternative to judicial foreclosure is a non-judicial process that gives the creditor the power to sell the pledged property without court intervention. Under a power-of-sale procedure a creditor may proceed directly to sale of the property, by auction or private transaction, after a notice to the debtor. In practical terms the power of sale relieves the creditor of the burden of going to court and presenting a case. It instead places this burden on the debtor, who can go to court to stop the sale of the property.

Survey Question 14 **What is the time between notice of intent to sell and loan collection for power-of-sale agreements if available to lenders?**

Survey Question 15 **What is the cost of power-of-sale agreements if available to lenders as a percentage of property value?**

Determine the Sub-Indicator Score.

Very Strong Power-of-sale is allowed by law and used frequently by lenders.

Strong Power-of-sale is allowed by law and used occasionally by lenders.

Weak Power-of-sale is allowed by law but not in use in the market.

Very Weak Power-of-sale is not available to lenders.

Determine the Lead Indicator Score for Contract Enforcement

Step 1 Review the Sub-Indicator scores.

Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 4.3 – Commercial Dispute Resolution

Core Question:	Can commercial disputes be resolved fairly and efficiently without excessive costs and delays?
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While summary judgments and power-of-sale offer efficiencies in residential mortgage default, advanced property markets also require multiple avenues for commercial dispute resolution.

First specialized commercial courts need to be in place outside the criminal or constitutional courts to address the complex issues involved in commercial contract disputes. Even in developed countries there is a preference for litigation, despite evidence to show that litigation is the most time consuming and costly option.

Alternative dispute resolutions procedures outside the courts such as negotiation, arbitration and mediation are growing trends. Developing contracts with arbitration clauses and company policies on dispute resolution prior to disputes helps get resources back to productive use when disagreements inevitably arise. Such alternative dispute resolutions procedures require that objective third party arbitrators and structured out-of-court implementation procedures be developed. Finally, global markets require increased emphasis on bilateral trade agreements and the adoption of international norms such as the Convention on the Recognition and Enforcement of Foreign Arbitral Awards – New York Convention.

Sub-Indicator 4.3.1 – Commercial Courts

Survey Question 16 Do specialized commercial courts exist for the handling of property disputes and foreclosures?

- Step 1 Visit the Globalex international and foreign law research of the New York University Hauser Global Law Program
www.nyulawglobal.org/globalex/index.html
- Step 2 Click “Foreign Law Research” and review information for your country.
- Step 3 Conduct an Internet search using such terms as “commercial courts [country],” “property courts [country],” or “probate courts [country].”
- Step 4 Consult with local real estate attorneys, developers, brokers or valuers and ask about the judicial process for handling contract disputes.
- Step 5 Determine the Sub-Indicator Score
 - Very Strong Commercial courts exist including property and probate courts that efficiently handle property disputes and inheritances without significant delay
 - Strong Commercial courts exist including property and probate courts that handle property disputes and inheritances

Weak Commercial courts exist. Separate property and probate courts not yet developed or not fully functional

Very Weak Separate commercial courts either do not exist or are not fully functional

Sub-Indicator 4.3.2 – Alternative Dispute Resolution

Survey Question 17 Are alternative dispute resolution mechanisms in place including commercial arbitration, private mediation and community-based practices?

Step 1 Visit the New York Convention Website list of countries to see if your country is a member:

www.newyorkconvention.org/new-york-convention-countries/contracting-states

Step 2 Conduct an Internet search using such terms as “alternative dispute resolution [country],” “ADR [country],” or “arbitration [country].”

Step 3 Consult with local real estate attorneys, developers, brokers or valuers and ask about their experience with negotiation, arbitration and mediation in handling contract disputes.

Step 4 Determine the Sub-Indicator Score

Very Strong A member of the New York Convention; ADR supported by law and by numerous organizations that train and certify mediators

Strong A member of the New York Convention; ADR supported by law and by organizations that train and certify mediators

Weak Not a member of the New York Convention; formal ADR processes are in place

Very Weak Not a member of the New York Convention; ADR processes completely informal

Sub-Indicator 4.3.3 – Commercial Treaties

Survey Question 18 What bilateral, regional and international treaties exist concerning business between countries?

Step 1 Visit the World Trade Organization Website to find if your country is a member: www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

Step 2	Conduct an Internet search using such terms as “Ministry of Trade [country],” or “Investment [country].”	
Step 3	Consult with local real estate developers, brokers or valuers and ask about their experience with cross-border transactions and any bilateral or regional agreements.	
Step 4	Determine the Sub-Indicator Score	
	Very Strong	A member of the World Trade Organization; numerous bilateral/regional trade agreements, signed ratified and operational
	Strong	A member of the WTO; numerous bilateral trade agreements signed or in the process of being negotiated or ratified
	Weak	A member of the WTO; bilateral trade agreements in the process of being negotiated
	Very Weak	Not a member of the WTO

Determine the Lead Indicator Score for Commercial Dispute Resolution

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Determine the Core Element Score for Rational Dispute Resolution

- Step 1 Review the Lead Indicator scores.
- Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

↻ Core Element Linkages

Rational Dispute Resolution ↔ Property Rights

While a great deal of effort has been made to support property rights institutions over the last decades, less effort has been made to develop the specialized institutions necessary to resolve property disputes in an efficient and equitable manner. Without a strong dispute resolution process and timely changes to the

laws and institutions that support property rights on the front end, efficient markets will be slow to develop.

The dead capital brought to life by titling, registries and formal ownership will be short lived. Citizens will find that their rise from poverty is short-circuited by organized criminal activity and lack of access to the courts. International investors will place their capital in markets where they can be assured of reasonable protection from market downturns and other risks.

Please refer to the information for Property Rights on page 10.

Field Assessment

The remaining Core Elements – Rational Dispute Resolution, Financial Transparency and Appropriate Regulation have a limited number of widely available and researched indexes that can be used as sources. These elements form the Scorecard’s primary research agenda. These Core Elements contain more Survey and Field Questions. The Scorecard’s goal is to provide yearly evaluations of these supporting institutions to complement the *Doing Business* and *Global Competitiveness* indexes.

Field research for these elements, rather than focusing on differences between laws and application, will focus more on recommended reforms and the development of civil society institutions.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local property attorneys, brokers, agents and valuers and ask them to tell you about recent experiences in dealing with dispute resolution. Be sure to include information about both judicial and non-judicial processes.
- Step 3 Determine the answers to the following question and/or additional questions you tailor to the specific characteristics of your market:

Field Question 8 To what extent do practitioners report the use of formal contracts and trust institutions to support contract enforcement?

Core Element 5 – Financial Transparency

"Financial transparency means timely, meaningful and reliable disclosures about a company's financial performance. Companies need to provide transparent financials to raise capital. Investors need transparent financials to make informed investment decisions. Therefore, financial transparency is important not only because it is the bedrock of our financial markets, but also because it is absolutely essential to today's investors."

- Cynthia A Glassman, Commissioner, U.S. Securities and Exchange Commission, opening remarks to the Symposium on Enhancing Financial Transparency, June 4, 2002.



Strong Weak

Property markets, like all markets, go through cycles. Value continually cycles through expansion, contraction, recession and recovery. To avoid severe recessions, financial mediators need to not only have accurate information about the real value of underlying collateral, but they must pay attention to the warnings of regulators and analysts during market expansion. As markets stabilize either after a recession or political conflict, financial liberalization can lead to credit expansion that exceeds the ability of financial intermediaries to assess risk. Deregulation and competition must be matched by the continued development of market participants across the entire spectrum including regulators, asset valuers, rating agencies and data providers.

Accurate and transparent financial reporting of companies and management disclosures are critical to market stability and sophistication. Bankruptcy laws and processes must be efficient and reasonably allow individuals to obtain a fresh start or trouble businesses to reorganize. Throughout the entire cycle, independent, highly trained and ethical asset valuers are critical to market stability. As markets continue to develop, standardized data needs to be collected, aggregated and used to provide feedback to the markets on current and historical trends. The continued international expansion of financial and capital markets requires that all these financial transparency measures take on a global scale.

Core Element Goal

A well developed and transparent financial system that includes strong supporting institutions and highly trained and ethical professionals that contribute to effective financial intermediation and deep and broad access to capital and financial services

Lead Indicator 5.1 – Market Stability

Core Question:	Are market risks sufficiently transparent and diversified so that efficient capital allocation can occur?
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Sub-Indicator 5.1.1 – Financial Reporting

What is the strength of the country’s auditing and reporting standards?

International Financial Reporting Standards (IFRS) are critical to the transparent operation of financial markets. These standards must be accepted and enforced by any country that wishes to participate in global capital markets. National accounting standards need to converge toward IFRS. In addition to developing IFRS, the International Accounting Standards Board is working to help emerging markets and small and medium sized entities participate in global markets.

- Step 1 Visit the *Global Competitiveness Report* (GCR):
<http://reports.weforum.org/global-competitiveness-report-2019/>
- Step 2 From the “Select Index Component” dropdown Select “1.18 Strength of auditing and reporting standards”
- Step 3 Find your country on the table.

Step 4 Record the ranking and numeric score from this external source.

Step 5 Determine the Sub-Indicator score:

Very Strong 1ST – 35TH countries
Strong 36TH – 70TH countries
Weak 71ST – 105TH countries
Very Weak 106TH – 141ST countries

Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 5.1.2 – Financial Services

What is the depth of the financial sector?

An efficient financial sector allocates the resources saved by a nation’s citizens as well as those entering the economy from abroad to their most productive uses. It channels resources to those entrepreneurial or investment projects with the highest expected rates of return, rather than to the politically connected. Competitive economies require diversified financial markets that can make capital available for private-sector investment from loans, venture capital and other financial products. To fulfill all these functions, the banking sector needs to be trustworthy and transparent, and financial markets need appropriate regulation to protect investors and other actors in the economy at large.

Step 1 From the GRC Index select Table 9.02 – “Financing of SMEs”

Step 2 Find your country on the table.

Step 3 Record the ranking and numeric score.

Step 4 Determine the Sub-Indicator score:

Very Strong 1ST – 35TH countries
Strong 36TH – 70TH countries
Weak 71ST – 105TH countries
Very Weak 106TH – 141ST countries

Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 5.1.3 – Insolvency Process

Debt is one of the most useful contracts in every economy since it enables firms to finance investment. To enforce debt contracts, societies create a variety of legal mechanisms or institutions that allow lenders to go after a defaulting borrower’s income and assets without resorting to violence. Some foreclosure proceedings do not require courts. However many societies rely on courts to enforce debt contracts on firms with multiple creditors through bankruptcy or insolvency procedures.

Despite the importance of debt enforcement, insolvency institutions are generally perceived to perform poorly, even in advanced market economies but especially in developing countries.

- Step 1 Visit *Doing Business*: www.doingbusiness.org
- Step 2 From the "select an economy" drop down select your country.
- Step 3 Record your country's rank for "Resolving Insolvency" for the current and previous year.
- Step 4 Click on "Resolving Insolvency"
- Step 5 Record the answers and scores to the following questions:

5.1.3.1 What is the average time to complete bankruptcy proceedings?

5.1.3.2 What is the cost of the bankruptcy proceedings as a percentage of the estate?

5.1.3.3 What is recovery rate of bankruptcy proceedings?

- Step 6 Determine the Sub-Indicator Score and Trend.

Very Strong 1ST – 47TH countries

Strong 48TH – 95TH countries

Weak 96TH – 142ND countries

Very Weak 143RD – 190TH countries

Trend either ↑ or ↓ compared to previous year.

Determine the Lead Indicator Score for Market Stability

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 5.2 – Independent Asset Valuers

Core Question:	Do highly trained, independent and ethical valuers exist for real property, natural resources, machinery and equipment and intangible assets?
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Independent asset valuers are the axis around which property information flows from collateral value confirmation for mortgage loans and feasibility studies at the beginning of projects to the determination of value when an asset is taken by the government to make way for new growth or assets are redistributed through the insolvency process. International valuation standards, generally accepted methods of valuation practice and the development of and enforcement of a code of conduct for valuers are critical to the functioning of property markets.

Clear, consistent and transparent valuation standards and the targeted development of valuation professionals raise the understanding of and confidence in financial reporting. Such efforts will also facilitate expeditious and reliable audits and provide a consistent approach to portfolio and asset management as a way of reducing the risks associated with possible future economic crises.

Sub-Indicator 5.2.1 – Standards

Survey Question 19 How easy is it to find a valuer who implements International Valuation Standards?

- Step 1 Visit the IVSC website: www.ivsc.org
- Step 2 Click “About US” and then “Membership” and “Our Members”.
- Step 3 Note if your country has a member organization.
- Step 4 Consult with local real estate valuers and ask about the valuation standards they use when conducting asset valuations.
- Step 5 From the interviews answer Survey Question 21.
- Step 6 Determine the Sub-Indicator Score:
 - Very Strong The country has adopted International Valuation Standards as the National Valuation Standards.
 - Strong The country’s National Valuation Standards are largely compliant with International Valuation Standards
 - Weak The country has no uniform national standards, but standards do exist within banks and other firms.
 - Very Weak The country has no valuation standards.

**Civil Society Resource – www.ivsc.org
International Valuation Standards Council – IVSC**

The IVSC has been in existence for more than 25 years. Its origins were in the need identified by a number of professional bodies from around the world for uniformity in the valuation approaches used in real estate markets. Over the past decade it has evolved and expanded and now produces standards for many types of assets, including plant and equipment, intangible assets and businesses. IVSC has also worked in liaison with the International Accounting Standards Board in producing guidance on valuations required under International Financial Reporting Standards.

Sub-Indicator 5.2.2 – Training

Survey Question 20 What is the level of training of valuers?

Generally Accepted Valuation Principles are laid out by the IVSC. They include the concept of market value, highest and best use and the three market-based approaches to value – the cost approach, the sales comparison approach and the income capitalization approach. Valuers should have training in and experience applying all three approaches to value.

- | | |
|-------------|--|
| Step 1 | Consult with local bankers, large investors, real estate developers, brokers and agents and ask about the competency of the valuers in the market. |
| Step 2 | Conduct an Internet search using the terms “valuation [country]” or “real property valuation [country]” |
| Step 3 | From the interviews and research answer Survey Question 22. |
| Step 4 | Determine the Sub-Indicator Score: |
| Very Strong | Valuers are highly trained and experienced in the application of the three market-based approaches to value and continually upgrade their skills. |
| Strong | Valuers are trained in the application of the three market-based approaches to value and have some experience in their application. |
| Weak | Valuers are trained and experienced but focus primarily on the cost approach to value. |
| Very Weak | No separate, independent valuation profession exists. |

Civil Society Resource – Appraisal Institute www.appraisalinstitute.org

The Appraisal Institute was organized in 1932 and is a global membership association of professional real estate appraisers. The Appraisal Institute is the acknowledged worldwide leader in residential and commercial real estate appraisal education. Its extensive curriculum of courses and specialty seminars provides a well-rounded education in valuation methodology for both the novice and seasoned practitioner. As the world's largest publisher of real estate appraisal literature, the Appraisal Institute offers a wide range of books and other materials on subjects ranging from basic valuation theory and techniques to advanced applications. It also publishes two quarterly periodicals, *The Appraisal Journal* and *Valuation* magazine.

Sub-Indicator 5.2.3 – Ethics

Survey Question 21 Are opinions offered by valuers free of influence from parties to the transaction?

Valuers must perform their assignments with the strictest independence, objectivity and impartiality. For the highest market transparency, a large corps of independent valuers outside of banking, real estate development and government must be in place to provide verification of value conclusions.

- | | | | | | | | |
|-------------|--|-------------|--|--------|--|------|---|
| Step 1 | Consult with local accountants, bankers, real estate developers, brokers and agents and ask about the independent valuation services available in the market. | | | | | | |
| Step 2 | Consult local valuers and ask about the existence of a code of conduct and the enforcement of the code. | | | | | | |
| Step 3 | From the interviews answer Survey Question 23. | | | | | | |
| Step 4 | Determine the Sub-Indicator Score: | | | | | | |
| | <table border="0"><tr><td style="padding-right: 20px;">Very Strong</td><td>A well-developed, independent valuation profession exists and an IVSC compliant code of conduct exists and is rigorously enforced.</td></tr><tr><td>Strong</td><td>A developing, independent valuation profession exists and an IVSC compliant code of conduct exists and is sporadically enforced.</td></tr><tr><td>Weak</td><td>The independent valuation profession is small and a code of conduct either does not exist or is not enforced.</td></tr></table> | Very Strong | A well-developed, independent valuation profession exists and an IVSC compliant code of conduct exists and is rigorously enforced. | Strong | A developing, independent valuation profession exists and an IVSC compliant code of conduct exists and is sporadically enforced. | Weak | The independent valuation profession is small and a code of conduct either does not exist or is not enforced. |
| Very Strong | A well-developed, independent valuation profession exists and an IVSC compliant code of conduct exists and is rigorously enforced. | | | | | | |
| Strong | A developing, independent valuation profession exists and an IVSC compliant code of conduct exists and is sporadically enforced. | | | | | | |
| Weak | The independent valuation profession is small and a code of conduct either does not exist or is not enforced. | | | | | | |

Very Weak No separate, independent valuation profession exists.

Determine the Lead Indicator Score for Independent Asset Valuers

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 5.3 – Data Standards

Core Question: Is accurate property information available electronically in formats that are consistent with international standards?

Property market analysts must have access to accurate transaction data. A distortion in market data to hide value from taxing authorities or to perpetuate fraudulent property flipping schemes has serious negative consequences when those distortions are amplified by securitization. Even in developed countries, the real estate industry is still very fragmented and there is a lack of timely data sharing, transparency and trust. Sales information and vital performance knowledge on buildings and portfolios is often not shared. This leads to high integration costs and poor productivity as the same data is re-entered into multiple database systems. Instead, managers and analysts need open, free, industry-wide digital standards to improve business analysis and enable more intelligent operations in an increasingly automated and web-based world.

Sub-Indicator 5.3.1 – Sales & Operating Data

Survey Question 22 Are data aggregation systems available where brokers and agents can widely share contracted real estate listings of properties that are for sale or rent?

Survey Question 23 Do resources exist for obtaining building income and expense estimates?

- Step 1 Consult with local real estate brokers, agents, managers or valuers and ask about the availability of sales and operating data in the market.
- Step 2 Conduct an Internet search using the terms “property listings [country]”, “sales listings [country]”, “building operating expenses [country]”
- Step 3 From the interviews and research answer Survey Questions 22 & 23.
- Step 4 Determine the Sub-Indicator Score:

Very Strong	Uniform, standardized property listing services and building income and expense estimates based on surveys are widely available throughout the country.
Strong	Uniform, standardized property listing services and building income and expense estimates based on surveys are available for the largest cities in the country.
Weak	Some property listings services and operating data are available but they are not standardized.
Very Weak	No data is available.

Civil Society Resources

Property markets in the United States and around the world are supported by several strong associations that help to set data standards and offer advice and support for professionals looking to improve data access and transferability.

National Association of Realtors

www.nar.realtor/international-real-estate

The National Association of Realtors – NAR, maintains formal relationships with 94 organized real estate associations around the world, giving buyers confidence in working with professionals that abide by a code of ethics. These bilateral partnerships exist in 73 countries to help establish business partnerships and referral opportunities.

Institute for Real Estate Management – IREM www.irem.org & <http://www.irem.org/resources>

IREM has been serving as a resource for more than 75 years and provides information and resources for finance and asset analysis including building operating and expense estimates in the U.S.

Building Owners and Managers Association International – BOMA www.boma.org

BOMA was founded in 1907 and is a primary source of information on office building development, building codes and office and industrial building measurement standards.

Sub-Indicator 5.3.2 – Interchange Formats

Survey Question 24 Do electronic data interchange formats conform to international standards (ebXML – electronic business using extensible markup language)?

- Step 1 Consult with local real estate managers, valuers or investment managers and analysts and ask about the electronic exchange of data in the market.
- Step 2 Conduct an Internet search using the terms “electronic data exchange [country]” or “ebxml [country]”
- Step 3 From the interviews and research answer Survey Question 24.
- Step 4 Determine the Sub-Indicator Score:
- | | |
|-------------|---|
| Very Strong | Real estate data is primarily exchanged electronically according to international standards |
| Strong | Real estate data exchange is transitioning to electronic formats |
| Weak | Some data is being exchanged electronically but most transactions are paper based. |
| Very Weak | No data is available or exchanged. |

Sub-Indicator 5.3.3 – Technical Standards

Survey Question 25 Do building codes and office building measurement standards (ANSI/BOMA Z65.1) conform to international standards?

- Step 1 Consult with local real estate developers, managers or valuers and ask about building codes and measurement standards in the market.
- Step 2 Conduct an Internet search using the terms “building codes [country]” “office building measurement [country]”
- Step 3 From the interviews and research n Survey Question 25.
- Step 4 Determine the Sub-Indicator Score:
- | | |
|-------------|---|
| Very Strong | National building codes and measurement standards conform to international standards. |
| Strong | National building codes and measurement standards are in place but do not conform to international standards. |

Weak National building codes and measurement standards are being developed.

Very Weak No national codes or standards are in place or planned.

Determine the Lead Indicator Score for Data Standards

Step 1 Review the Sub-Indicator scores.

Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Determine the Core Element Score for Financial Transparency

Step 1 Review the Lead Indicator scores.

Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

↻ Core Element Linkages

Financial Transparency ↔ Access to Credit

The financial sector and capital markets command excited attention in times of recovery and expansion and headlines of gloom during times of contraction and recession.

The profit of banks and rise of stock markets have traditionally led to speculation and derivative instruments designed to squeeze more profit from the same core assets. This in turn leads to further loosening of credit and less regulation of financial intermediaries.

Market stability requires the avoidance of extreme asset price bubbles that burst and freeze credit markets. More consideration and influence must be given throughout the cycle to the development of independent analysts and the core asset values they report. Every effort must be made to support and implement International Valuation Standards. Systems of assessing country risks must include the health of property markets and international data standards and systems of data sharing must be developed so that property markets can become more integrated, efficient and transparent.

Please refer to the information for Access to Credit on page 23

Field Assessment

Market stability requires that a separate independent valuation profession be in place to analyze the vital links between property and capital. These valuers must have access to accurate market data to complete their work.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local property attorneys, brokers, agents and valuers and ask them to tell you about recent experiences in obtaining sales data and independent valuation reports. Be sure to include information about both residential and commercial properties.
- Step 3 Determine the answers to the following questions question and/or additional questions you tailor to the specific characteristics of your market:

Market Stability

Field Question 9 How stable has the property market been over the last several years?

Valuation Profession

Field Question 10 How many independent valuers exist in the market?

Field Question 11 How many companies exist and what is the average size of valuation companies?

Field Question 12 What are the valuation standards and do they conform to international and regional standards?

Field Question 13 What valuation methods and techniques are used in the market?

Field Question 14 Are there valuer associations in the market? What number and percentage of practitioners belong?

Field Question 15 What training programs are available to upgrade the quality of valuers?

Field Question 16 Are peer review mechanisms in place to assist in enforcing ethical behavior?

Field Question 17 What is the quality of valuation reports?

Data Availability

Field Question 18 Are there publicly available data aggregation sites that include information on properties that are for sale or that have sold?

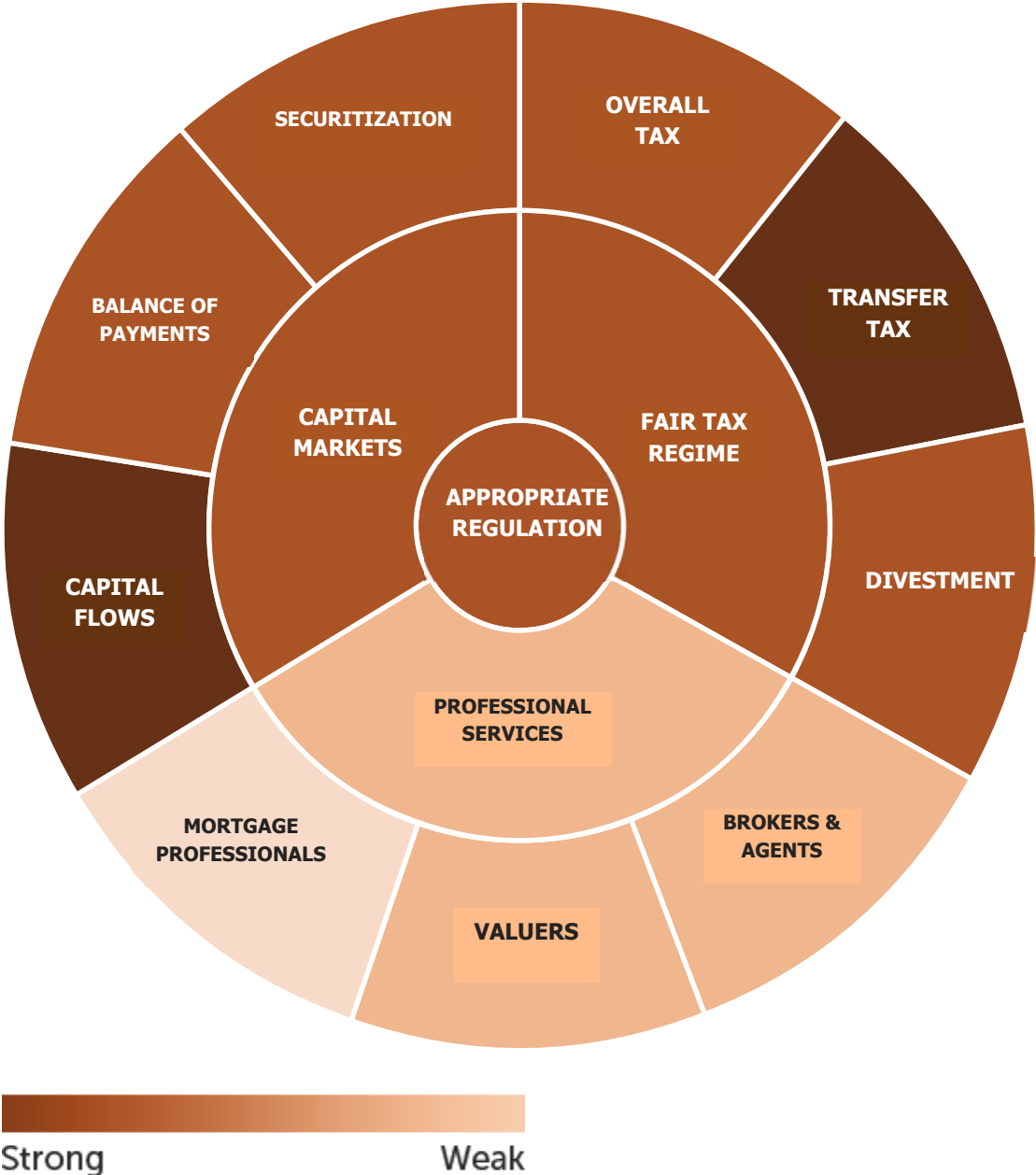
Field Question 19 What is the extent of the information and market coverage in these databases?

Field Question 20 Do valuers have established data sharing mechanisms?

Core Element 6 – Appropriate Regulation

"While this crisis had many causes, it is clear now that the government could have done more to prevent many of these problems from growing out of control and threatening the stability of our financial system. Gaps and weaknesses in the supervision and regulation of financial firms presented challenges to our government's ability to monitor, prevent, or address risks as they built up in the system."

- U.S. Treasury Dept, *Financial Regulatory Reform*, p. 2, June 2009



The development of property markets depends on appropriate government regulation and the continuous education of regulators as markets become more sophisticated. Regulators tend to focus on the narrow confines of their jurisdiction. As market participants learn the system, they often begin to find ways to work around regulations, or shop around for a more lenient regulator or a less restrictive country to place their investments. These efforts to avoid regulation increase systemic risks and can lead to a cascading economic collapse.

Governments and citizens need to work together to make sure that the entire property market system is understood, fairly regulated and that there is continuous feedback between market participants and government agencies. This includes making sure that the entire tax regime is fair and does not place too much of the overall tax burden on property transactions or yearly property taxes. It also includes the certification, supervision and disciplining of property market professionals. Finally, capital markets and capital market regulation must continually evolve and be transparent so that native capital can be put to the best use and additional capital can be attracted from abroad.

Core Element Goal

A comprehensive regulatory regime that is transparent, efficient, simple in its implementation and that leads to accurate reporting of property values and prudent protection from market risks

Lead Indicator 6.1 – Fair Tax Regime

Core Question:	Do market participants feel the overall tax rate is fair and participate in formal transactions?
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Governments raise funds to provide services such as roads, police protection, sanitation and schools through taxation. Tax policies determine what goods, services and income will be taxed and how much each citizen will pay. Property tax has long been one of the primary forms of taxation as property owners often benefit the most from government services.

Governments must be careful to ensure that tax rates do not become a disincentive for investment and that tax rates continue to reflect market values. In today's global market governments also need to make sure that foreign investors are treated fairly.

Sub-Indicator 6.1.1 – Transfer Tax

What is the total property transfer tax including all duties and payments?

- Step 1 Visit *Doing Business*: www.doingbusiness.org
- Step 2 From the "select an economy" drop down select your country.
- Step 3 Click on "Registering Property"

Step 4 Record the cost (% of property value)

Step 5 Determine the Sub-Indicator Score:

Very Strong	3% or less
Strong	3.1 – 5%
Weak	5.1 – 10%
Very Weak	More than 10%

Sub-Indicator 6.1.2 – Overall Tax

What is the overall tax rate on entrepreneurs?

Step 1 Visit the *Doing Business* as above.

Step 2 Record your country's rank for "Paying Taxes" for the current and previous year.

Step 3 Click on "Paying Taxes"

Step 4 Review the information.

Step 5 Determine the Sub-Indicator Score and trend:

Very Strong	1 ST – 47 TH countries
Strong	48 TH – 95 TH countries
Weak	96 TH – 142 ND countries
Very Weak	143 RD – 190 TH countries

Trend either ↑ or ↓ compared to previous year.

Sub-Indicator 6.1.3 – Divestment

Survey Question 26 What is the tax on profits for foreign investors when divesting property?

Step 1 Consult with local real estate managers, valuers or investment managers and analysts and ask about the tax rates on foreign investors.

Step 2 Conduct an Internet search using the terms "taxation [country]," "investment [country]," or "FDI – foreign direct investment [country]"

Step 3 From the interviews and research answer Survey Question 26.

Step 4 Determine the Sub-Indicator Score:

Very Strong	Domestic and foreign investors are treated equally and the tax rate is less than 15%.
Strong	There are some restrictions on foreign investors and the tax rate is from 15 to 30%.
Weak	Foreigners may only purchase real estate in limited circumstances, the government places significant restrictions on international payments, tax rates above 30%.
Very Weak	Foreigners cannot own real estate.

Determine the Lead Indicator Score for Fair Tax Regime

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 6.2 – Professional Services

Core Question: Are the professional services necessary for efficient and transparent property markets available and appropriately regulated and supervised?

Highly functioning property markets require that a competent and independent corps of service professionals be in place to move markets, protect the public and advise the government in property development, taxation and the courts in disputes. This private sector support mechanism is primarily made up of valuers, brokers, agents and mortgage professionals.

Brokers and agents act as market makers helping people realize that property is an asset base that they can sell, manage and upgrade. Mortgage professionals help connect people to sources of long-term funding so they can unlock the value in their property.

Throughout the process, independent asset valuers help protect all parties by ensuring that properties are valued according to generally accepted valuation principles and the intended purpose of the valuation, i.e. for taxation, lending, government taking or financial reporting. Because of the importance of these professionals to the functioning of property markets throughout economic cycles, it is critical that governments regulate these professionals and establish disciplinary procedures to quickly remove fraudulent players.

Sub-Indicator 6.2.1 – Asset Valuers

- Step 1 Consult with local real estate brokers and agents, managers or valuers and ask about the regulation of property valuers.

Step 2 Conduct an Internet search using the terms “valuation profession [country]” or “property valuation [country]”

Step 3 From the interviews and research answer the following:

Survey Question 27 Are asset valuers licensed and/or certified by the government?

Survey Question 28 How effective are mechanisms in place to discipline valuers who engage in misconduct?

Step 4 Determine the Sub-Indicator Score:

Very Strong Licensing and certification of valuers by the government includes several levels and disciplinary procedures are in place and rigorously enforced.

Strong Licensing and certification of valuers by the government includes several levels and disciplinary procedures are in place and sporadically enforced.

Weak Only a small number of valuers are licensed by the government such as for the courts.

Very Weak Valuers are not licensed by the government.

Civil Society Resource – Appraisal Foundation

www.appraisalfoundation.org

The Appraisal Foundation is authorized by the U.S. Congress as the source of appraisal standards and appraiser qualifications for real property appraisers. Through its effective production of the Uniform Standards of Professional Appraisal Practice (USPAP), the Foundation has been instrumental in setting a high level of professionalism in the industry.

The Foundation includes an International Valuation Council. The Council maintains contact and a reciprocal process to share experiences with other national standard and qualification setting bodies. The Council interacts with the International Valuation Standards Board, Regional Valuation Standards Boards and other National Valuation Standards and Qualifications Boards to facilitate strong and consistent national standards around the world.

Sub-Indicator 6.2.2 – Brokers & Agents

- Step 1 Consult with local real estate brokers and agents, managers or valuers and ask about the regulation of brokers and agents.
- Step 2 Conduct an Internet search using the terms “real estate brokers [country]” or “real estate supervision [country]”
- Step 3 From the interviews and research answer the following:

Survey Question 29 Are real estate brokers and agents licensed by the government?

Survey Question 30 How effective are mechanisms in place to discipline brokers or agents who engage in misconduct?

- Step 4 Determine the Sub-Indicator Score:
- Very Strong All real estate brokers and agents are licensed by the government and disciplinary procedures are in place and rigorously enforced.
- Strong Most real estate brokers and agents are licensed by the government and disciplinary procedures are in place and sporadically enforced.
- Weak Only a small number of brokers and agents are licensed by the government with a large number of unregulated agents operating in the market.
- Very Weak Brokers and agents are not licensed by the government and unregulated/unprofessional brokers dominate the market.

Sub-Indicator 6.2.3 – Mortgage Professionals

- Step 1 Consult with local real estate brokers and agents, managers or valuers and ask about the mortgage services available and mortgage professionals active in the market.
- Step 2 Conduct an Internet search using the terms “mortgage [country]” or “mortgage financing [country]”
- Step 3 From the interviews and research answer the following:

Survey Question 31 Are mortgage professionals licensed and/or certified by the government?

Survey Question 32 How effective are mechanisms in place to discipline mortgage professionals who engage in misconduct?

Step 4 Determine the Sub-Indicator Score:

Very Strong Mortgage loans are readily available, mortgage banks and mortgage professionals are regulated by the government, and disciplinary procedures are in place and rigorously enforced.

Strong Mortgage loans are available, mortgage banks and mortgage professionals are regulated by the government and disciplinary procedures are in place and sporadically enforced.

Weak Mortgage loans are only available to a small number of borrowers and the market is unregulated.

Very Weak Mortgage loans are unavailable.

Determine the Lead Indicator Score for Professional Services

Step 1 Review the Sub-Indicator scores.

Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 6.3 – Capital Markets

Core Question:	Are capital markets well-regulated and diversified enough to provide financial resources to private-sector entrepreneurs and innovators?
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Well-developed and regulated capital markets allow capital to flow to where it is most needed and the returns are greatest. Excessive state action to redirect the flow of capital is an imposition on both the freedom of the investor and the freedom of the people seeking capital. The more restrictions a country imposes on investment, the lower its level of entrepreneurial activity and economic growth. As the world becomes more interconnected, restrictions on the flow of capital into and out of a country increasingly place countries at a disadvantage not only in overall economic development but in basic levels of prosperity and individual freedom.

At the same time, markets need transparent and prudent regulation to prevent elites and other insiders from taking advantage of their knowledge to drive prices beyond sustainable values based on core assets.

The drive to profit must be balanced with auditing by independent analysts and regulators armed with accurate knowledge about company balance sheets and enough understanding of derivative instruments to accurately rate and control risks. With effective supervision and transparent knowledge of asset performance over time, securitization can occur, and core assets can be leveraged to provide additional capital to entrepreneurs who in turn can raise the overall prosperity of the country.

Sub-Indicator 6.3.1 – Capital Flows

How open is the country to trade including tariffs and market openness?

- Step 1 Visit the *Global Competitiveness Report* (GCR):
<http://reports.weforum.org/global-competitiveness-report-2019>
- Step 2 From the "Select Index Component" dropdown Select "Trade Openness from 7th Pillar".
- Step 3 Find your country on the table.
- Step 4 Record the ranking and numeric score from this external source.
- Step 5 Determine the Sub-Indicator score:
 - Very Strong 1ST – 35TH countries
 - Strong 36TH – 70TH countries
 - Weak 71ST – 105TH countries
 - Very Weak 106TH – 141ST countriesTrend either ↑ or ↓ compared to previous year.

Sub-Indicator 6.3.2 – Balance of Payments

What is the country's current account balance as a percentage of GDP?

- Step 1 Visit the IMF's World Economic Outlook Database:
www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx
- Step 2 Click "By Countries".
- Step 3 Click on your country's region.
- Step 4 Clear All then select your country.
- Step 5 Click "Continue" and scroll down and click "Current account balance Percent of GDP" and then "Continue".
- Step 6 Click "Prepare Report" and record the %.

Step 7 Determine the Sub-Indicator score:

Very Strong	5.1% and above
Strong	0 – 5%
Weak	-0.1% – -5%
Very Weak	-5.1% and above

Trend either ↑ or ↓ as forecast.

Sub-Indicator 6.3.3 - Securitization

What is the percentage of outstanding international private debt securities to GDP?

- Step 1 Visit the World Bank's *Global Financial Development Report*:
<https://databank.worldbank.org/reports.aspx?source=global-financial-development>
- Step 2 From the Variables select your Country, Series "Outstanding international private debt securities to GDP (%)", Time -the three most recent years
- Step 3 Click "Apply Changes".
- Step 4 Record the %.
- Step 6 Determine the Sub-Indicator score:
- | | |
|-------------|---------------|
| Very Strong | 30% and above |
| Strong | 10% - 29% |
| Weak | 0% - 9% |
| Very Weak | none |

Determine the Lead Indicator Score for Capital Markets

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Determine the Core Element Score for Appropriate Regulation

- Step 1 Review the Lead Indicator scores.
- Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

🔄 Core Element Linkages

Appropriate Regulation ↔ Effective Governance

Continued macroeconomic development is dependent on continual microeconomic improvements. While democratic processes, the control of corruption and an effective civil service are essential to basic economic stability, sustained economic growth requires that governance reforms be matched by effective and efficient regulation. A feedback loop between those charged with implementing policy and policy makers is essential.

For property markets this means that tax systems must be diversified and rates low enough to keep from driving transactions underground.

Professional service providers must not only be well-trained and supervised, but they must have influence on policy makers so that identified risks can be mitigated by government action. Finally, the right balance must be struck between the demands of the market and the overall public good.

Please refer to the information for Effective Governance on page 32

Field Assessment

Property markets come full circle when supporting institutions allow properties to not only be registered, used as collateral and sold for the first time, but when properties are sold for the second, third and fourth times. These sales start to unlock value creating more liquid assets that grow in value over time. Property markets are created by market makers who help define and drive the emergence of market bids, offers, valuation and exchange.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local property brokers, agents and valuers and ask them to tell you about recent experiences in listing properties for sale, sales contracts, closings and compensation. Be sure to include information about both residential and commercial properties.
- Step 3 Determine the answers to the following questions question and/or additional questions you tailor to the specific characteristics of your market:

Taxation

Field Question 21 What is the overall taxation system in regards to property?

Brokerage

Field Question 22 What is the number of practitioners in the country including full-time brokers/agents with formal training and part-time, informal brokers?

Field Question 23 What is the number and average size of brokerage companies?

Field Question 24 Are there brokers associations active in the market? What number and what percentage of practitioners belong?

Field Question 25 What training programs are available to enhance productivity?

Field Question 26 Is there a Code of Ethics or standards that practitioners follow? Is the Code enforced?

Field Question 27 Do civil society organizations exist to support the development of mortgage professionals?