



# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 27-Mar-2020 | Report No: PIDISDSA26227

**BASIC INFORMATION****A. Basic Project Data**

Country India	Project ID P168590	Project Name Tamil Nadu Housing and Habitat Development Project	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 27-Mar-2020	Estimated Board Date 18-May-2020	Practice Area (Lead) Urban, Resilience and Land
Financing Instrument Investment Project Financing	Borrower(s) Housing and Urban Development Department, Government of Tamil Nadu	Implementing Agency Tamil Nadu Slum Clearance Board (TNSCB), Tamil Nadu Infrastructure Fund Management Corporation Limited, Chennai Metropolitan Development Authority (CMDA)	

## Proposed Development Objective(s)

To strengthen the housing sector institutions of Tamil Nadu for increased and sustainable access to affordable housing.

## Components

Enabling private sector participation in affordable urban housing provision  
Strengthening of Tamil Nadu's urban housing institutions for enhanced sustainability

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	72.00
<b>Total Financing</b>	72.00
<b>of which IBRD/IDA</b>	50.00
<b>Financing Gap</b>	0.00



DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	50.00
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Non-World Bank Group Financing

Counterpart Funding	22.00
Sub-borrower(s)	22.00

Environmental Assessment Category

Performance Standards: FI-2

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Since the 2000s, India has made remarkable progress in reducing absolute poverty.** Between FY11/12 and 2015, poverty declined from 21.6 to an estimated 13.4 percent at the international poverty line (2011 PPP US\$1.90 per person per day), continuing the earlier trend of fast poverty reduction. Thanks to robust economic growth, more than 90 million people escaped extreme poverty and improved their living standards during this period. Despite this success, poverty remains widespread. In 2015, 176 million Indians were living in extreme poverty, while 659 million – half the population – were below the higher poverty line commonly used for lower middle-income countries (2011 PPP US\$3.20 per person per day). Implementation challenges of indirect tax reforms, stress in the rural economy and a high youth unemployment rate in urban areas, may have moderated the pace of poverty reduction since 2015.

2. **India’s economic growth is closely associated with urbanization, with cities offering a pathway to rapid poverty alleviation and achievement of middle-income status.** Rising labor earnings due to movement of labor from agriculture to non-farm work and an unprecedented rise in wages for unskilled labor propelled rapid poverty decline – extreme poverty rate in India was more than halved in two decades.<sup>1</sup> It is estimated that over 50 percent of Indians already live in cities. By 2030, 70 percent of new employment is expected to be generated in cities and the number of urban households in the middle class is likely to more than quadruple. Indian cities will need to accommodate 18 million new urban dwellers per year. Urbanization is placing cities as the main engines of economic opportunities and shared prosperity.

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<sup>1</sup> Extreme poverty in India decreased from 46 percent in 1993 to 21 percent in 2011 (using the international poverty line of US\$1.90 per person per day in 2011 PPP), and according to World Bank estimates, poverty continued falling in more recent years.



3. **The southern State of Tamil Nadu is the one of the most urbanized states, and an economic powerhouse undergoing an economic and spatial transformation.** Nearly half (48.4 percent) of Tamil Nadu's population of 72.1 million is urban.<sup>2</sup> Rapid urbanization in the state is expected to increase the urban population to 63 percent by 2030. From 2004 to 2012, the state's GDP grew at an annual average of 9.3 percent – around two percentage points higher than the national average– while per capita income witnessed a compound annual growth of 15.9 percent in the same period. The majority of GDP is generated in urban areas, reflected in the contribution of the services and industry/manufacturing sectors to the state's economy, 58 and 30 percent respectively. Automobile, pharmaceuticals, garments, textiles, chemicals, and plastics are among the state's main manufacturing products. Chennai, in particular, is well known for its auto production, earning itself the nickname of the "Detroit of India." Chennai's economic dynamism has made the capital city very attractive to migrants from within and outside Tamil Nadu.

4. **As other rapidly urbanizing states in India, Tamil Nadu has struggled to meet the increased demand for housing and urban services, especially for the low-income segments of economically weaker section (EWS) and low-income group (LIG)<sup>3</sup>.** In Tamil Nadu, housing shortage was estimated at 1.25 million units as of 2011<sup>4</sup>, with urban population growing since then, and expected to continue growing, only increasing pressure on housing provision. Out of these households, 77 percent live in congested houses and need new houses while 13 percent are living in non-serviceable *katcha*<sup>5</sup> dwellings. The remaining 0.13 million households are living in obsolescent houses or are homeless. It is estimated that about 96 percent of the total housing deficit is concentrated in EWS/LIG segments.<sup>6</sup> Access to basic urban services—water, sanitation, public transport, energy, and health care, among others—remains deficient in most cities, worsening at the urban periphery compared with at the core, causing urbanization to be messy. An estimated 6 million people in the State are currently living in slums (representing 16.6 percent of the state's urban population). In Chennai, the slum population amounts to 300,000 households.

5. **The existing housing program and institutions are unable to respond effectively to the large housing demand.** Historically, the public sector has been the main provider of affordable housing in Tamil Nadu. During 2016-2018, about 85 percent of the affordable housing supply in the State was provided by public sector, with Tamil Nadu Slum Clearance Board (TNSCB) being the main agency to plan, build and deliver various affordable housing schemes in government-owned land. For economically weaker segments, the Government builds housing units, which it provides with minimum beneficiary contribution. The pace and scale of housing provision by the State is not adequate to address the existing stock deficit. The product is also not adequate, all units built have the same design and characteristics and are built in similar concrete building blocks regardless of location or beneficiaries' preferences and livelihoods. Moreover, the public sector housing provision does not consider varying income levels and affordability (see Annex 5 for an analysis on housing affordability across the income distribution in India), and market demands for housing solutions among LIG and EWS. This means that they allocate some units at highly subsidized levels to households with some ability to pay.<sup>7</sup> There is no product differentiation to satisfy needs of LIG and

<sup>2</sup> 2011 National Census Report.

<sup>3</sup> EWS households are defined as households with annual income up to INRs. 300,000 (US\$4,285) while LIG households are defined as households with annual income between INRs. 300,001 and INRs. 600,000 (US\$4,286-8,571) by the Ministry of Housing and Urban Affairs, GoI (PMAY-HFA Urban Scheme Guidelines).

<sup>4</sup> According to the Technical Group (TG-12) report on Estimation of Urban Housing Shortage 2012.

<sup>5</sup> A *katcha* structure is one whose walls and roofs are made up with mud, bamboo, grass, leaves, reeds, thatch or unburnt bricks.

<sup>6</sup> Report of the Technical Group (TG-12) on Estimation of Urban Housing Shortage, pp 355.

<sup>7</sup> A contribution of only 10% of the established housing cost is charged from beneficiary households by GoTN. In some cases, such as relocation



EWS, accommodating different household size and preferences, or housing solutions for industrial complex or female employees.

6. **The current public sector-led provision of affordable housing poses a growing fiscal burden while it disincentivizes and crowds-out private sector from entering into the affordable housing sector.** . Annually, the GoTN has supplied on average 33,500 housing units through public programs , with budgets of U\$250 million. Clearly, the public sector alone will take decades to address the backlog of the current housing stock, not to mention additional housing needs arising from population growth, urbanization, and demographic and socio-economic changes. Hence, the role of the private sector become critical in meeting the gap. However, while housing finance and developer sector have seen a rapid growth in India (See Box 1), there is limited private sector active in affordable housing segment in Tamil Nadu. The affordable housing developer industry in Tamil Nadu is highly concentrated in middle-income segments and only a handful number of private actors are currently engaged in LIG/EWS housing provision. The provision of public sector housing with very high levels of subsidies has crowded out private developers, even for the above-EWS market, and poses a dual challenge for the State which through its Affordable Housing Policy 2020 aims to reduce long-term fiscal burden on the government through increased private sector involvement in delivery of affordable housing.

7. **The sustainability of current government programs needs strengthening.** TNSCB, does not have a standardized environmental or social framework applicable to all its projects. Instead, it implements ad-hoc measures depending the project imperatives. To assess the socio-economic characteristics and demand needs of its beneficiaries, TNSCB uses a survey questionnaire that does not include enough information for adequate targeting. This leads to a one-size-fits-all urban design solution across all their sites. The lack of proper demand assessments limits their ability to provide tailored housing solutions at different sites and for different population groups. Moreover, insufficient technical capacity within TNSCB has limited its ability to develop an overarching urban design framework that guides its housing developments to ensure climate resilience, high quality of living, adequate services, public safety, social cohesion, as well as environmental sustainability. These combined challenges have led to numerous grievances from beneficiaries as they find design solutions or service standards not tailored to their needs. This situation is further exacerbated by lack of adequate maintenance of the units.

8. **A fundamental shift in the policy, institutions, and regulations in Tamil Nadu’s housing sector is needed to increase the access to affordable housing in the state in order to meet the current and projected demand.** Currently, the State lacks an overarching housing sector policy, institutional architecture, enabling regulations, and coordination mechanisms in the housing sector that could respond to the increasing demand of affordable housing. The GoTN has yet to develop and adopt a state-level housing and habitat policy, which articulates the vision and objectives for sector development, and sets out key principles and the institutional framework to realize development objectives. Additionally, supply-side constraints in the housing sector are limiting the provision of formal affordable housing solutions in well-located areas. Difficulty in accessing well-located and serviced urban land, coupled with regulatory barriers such as rigid planning norms and outdated procedural requirements for permit and registration, impede the effective supply of housing.

9. **Recognizing these binding constraints, the Government of Tamil Nadu has embarked on an ambitious reform program to transform the housing sector.** The reform program has the higher objective of

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of at-risk households, i.e. residing on river banks of Adayar and Cooum rivers, the beneficiary contribution of 10% is also waived off.



developing a well-functioning housing market that crowds-in private sector participation in affordable housing and addresses effectively the needs of low-income population. The GoTN's efforts are focused on redefining the Government's role and mandate from provider to enabler of efficient and inclusive housing markets, moving away from being the sole provider of housing solutions for the poor. In this transition, the GoTN is addressing key regulatory constraints that are critical to unlock the supply of affordable housing and well-functioning housing sector to set an enabling environment in the housing sector. These reforms are designed to bring in private sector financing in affordable housing, while adopting standards and sustainability for environmental and social management, to improve access and sustainability of affordable housing in the state. These reforms are supported by the proposed Tamil Nadu Housing Sector Strengthening Program DPF (P172732 , US\$ 200 million), a series of two single-tranche programmatic DPFs, aimed at strengthening the policy, institutions, and programs of the housing sector in Tamil Nadu. The policy, regulatory, and institutional changes supported under the programmatic DPFs will be introduced in a phased manner. The first DPF will focus on putting in place adequate policy, regulatory enabling environment, and the institutional framework to support the development and deepening of a housing market, unlocking supply-side constraints. The second DPF will deepen and promote measures to ensure the long-term sustainability of the housing sector by introducing a new institutional architecture for the sector and adopting diversified housing products and programs to expand access to affordable housing.

10. **For the reform efforts to lead to a sustainable and long-term path, it is critical to invest in and support the housing sector institutions.** The set of reform efforts initiated by the GoTN will only yield the expected results if they are accompanied with strong institutions in the housing sector to ensure the adequate sustainability and implementation of policy measures. Their capacity needs to be strengthened to assume their new role and mandates, to bring long-term sustainability of the reform efforts, and to deepen further the transformation of housing sector.

11. **While the TNSCB has been providing housing since 1970, there was no State level institution mandated to attract private investment for the supply of affordable housing. To fulfill this "new" objective, the GoTN created the Tamil Nadu Shelter Fund (TNSF) in 2017. The TNSF is a new Alternate Investment Fund (AIF) regulated by the Securities and Exchange Board of India (SEBI)<sup>8</sup> that will offer investors the possibility to invest in mix-use affordable housing projects that meet certain standards (eligibility criteria). Its main objective is to support public-private projects for the development of affordable housing. The TNSF is managed by the Tamil Nadu Infrastructure Fund Management Company (TNIFMC)<sup>9</sup>, an existing and operating asset management company with a track record in managing the Tamil Nadu Infrastructure Fund (TNIF) with dedicated staff to manage environmental and social aspects but not a systematic approach or one specific to the housing sector. Two key milestones of its implementation are being supported by the first-single tranche DPF of the programmatic engagement with Tamil Nadu: the approval of Private Placement Memorandum (PPM) by SEBI which would allow mobilize financing for affordable housing, and the adoption of environmental, social, and governance standards for all projects supported by the TNSF. To date, the TNSF has received a commitment of almost US\$ 21 million from the Government of Tamil Nadu) and other investors have also shown interest.<sup>10</sup>**

<sup>8</sup> Regulation 2(1) (b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

<sup>9</sup> TNIFMC is owned by the Government of the State of Tamil Nadu (49%), and state and private financial institutions (51%). The Board is comprised of: 4 Government Directors (to be reduced to 2), 2 Independent directors and 1 Shareholder nominee (NHB).

<sup>10</sup> This figure of INR 1,500,000,000 (Rupees one point five billion or Rupees one hundred and fifty crores) is documented in Government Order (MS) No. 135 dated 21 July 2017 as catalytic first loss capital (Class B Units).



12. **Housing programs and policies need to be integrated and coordinate with urban spatial development and sectoral plans.** This is most prominent for Chennai Metropolitan Region, the largest metropolitan area in Tamil Nadu. The Chennai Metropolitan Development Authority (CMDA)<sup>11</sup> is the nodal town planning authority for the capital metropolitan city. The CMDA is currently in the process of initiating work on its next Master Plan (2026-2046), where complementarities between different sectors are needed to optimize a coordinated spatial development strategy. The new master plan would need to draw from a strong analytical foundation, built on cross-sectoral integration. Current capacities within CMDA are not fully geared towards building such foundation. Integration and links among land use planning, housing, public transportation, disaster risk, water and wastewater, are critically missing. Comprehensive spatial development strategy provides an opportunity to maximize the impact of affordable housing programs (for example by linking housing to jobs) and ensure such development can turn into vibrant and prosperous communities. The existing capacity of the CMDA is will need strengthening to undertake a comprehensive master planning exercise that builds upon strong analytical foundation as well as coordination and integration of multiple sectors.

13. **Climate and geophysical risks in Tamil Nadu are high.** The Tamil Nadu State Action Plan for Climate Change (TNSAPCC) indicates an expected increase in extreme temperatures and extreme weather events (heavy rainfall, cyclones, sea surges, etc.) in future decades in Tamil Nadu<sup>12</sup>. Urban flooding is another significant problem identified with Chennai and its suburban areas worst affected by flooding because of improper drainage and encroachment of water bodies and waterways.<sup>13</sup> The TNSAPCC attributes the mushrooming of slums (many of which are located in high climate and disaster risk prone areas) to an acute shortage of housing stock, particularly in urban areas. There is a need to increase the housing stock in a sustainable manner.<sup>14</sup> It also directs the TNSCB to prioritize relocation of households currently residing in slums in low lying flood prone areas and consider likely impacts of sea level rise on TNSCB tenements located very close to the sea coast including possible relocation. Further, the Action Plan calls for adherence to energy conservation building code (ECBC) guidelines in plan approval process. Currently, TNSCB is not considering use of manufactured sand or fly ash as construction material in its housing projects primarily due to lack of knowhow on impacts of using these products in the long-run. Similarly, the Tamil Nadu Combined Development and Building Rules (TNCDBR) 2019 issued by CMDA does not integrate aspects of climate resilient construction,

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<sup>11</sup> CMDA was formed in 1974 as the nodal town planning authority for the city of Madras (now Chennai) and its suburbs.

<sup>12</sup> The TNSAPCC indicates that the mean annual temperature in the state has risen by 0.7 to 0.8°C in the last five decades (Annamalai et.al., 2011), and that the state is experiencing more dry days than wet days every year (Guhathakurta, 2011) while the Indian Meteorological Department reports that there has been a significant increase in frequency of heavy precipitation events. Over the next several decades, the already hot climate of Tamil Nadu is expected to get even hotter, with an average increase of 1oC in the next 15 years. Researchers anticipate that extreme rainfalls will become more common (Down to Earth, 2019) meaning increased number of wet days, but with a reduction in number of wet days. Tamil Nadu has been hit by about 32 cyclonic storms between 1891 to 2006 of which 30 were severe cyclonic storms. The total number of cyclonic storms hitting the Tamil Nadu coast increased to 44 by 2011, an increase by 37.5 percent between 2006 and 2011.

<sup>13</sup> The TNSAPCC indicates that there is a distinct interannual and spatial variability in rainfall across the state, with the western and southern part receiving the maximum rainfall. Due to the rising heat, the intensity of cyclones is also projected to increase in the form of high cyclonic wind speed. The sea level rise is also projected to increase by 0.19- 0.73m.

<sup>14</sup> It is estimated that 20 percent of the urban population are living in slums. Among them 30 percent are living on river and watercourses margin below Mean Flow Levels. These hutments will be submerged by floods or flash floods causing loss of lives or properties. Tamil Nadu slum Clearance Board has constructed 7500 tenements near seashore in the urban areas. In case the sea level rises in the long run by 1m, these scheme areas will get inundated and surrounded by seawater. Also, haphazard and unregulated developments are causing environmental degradation and congestion and thereby urban heat and resultant impact on the climate change. Large-scale urbanization causes mass removal of green cover, which affects the holding capacity of the soil causing floods during rains. The hilly regions are affected with landslides.



green building and sustainability provisions and rainwater harvesting<sup>15</sup>. Finally, climate resilience needs to play an important role in the drawing up of the new Master Plan for Chennai due in 2026, currently lacking in the present Master Plan. The TNSAPCC also calls for crowding in private sector involvement in housing and infrastructure sectors through pooling resources and expertise for up-scaling of climate change adaptation especially in terms of climate resilient and low carbon housing and infrastructure development, and mitigation initiatives by way of explicit incorporation of climate concerns into project framework. The private sector is expected to bring in greater potential and competency for bringing innovative solutions and scale to the various models for climate change adaptation and is shaped by the civil society and/or government institutions.

14. **There is a strong linkage and complementarity between the proposed Project and the DPFs.** The proposed DPFs support addressing structural constraints in the housing sector and introducing policy, regulatory, and institutional shifts that forms critical building blocks for well-functioning housing market. The proposed Investment Project focuses on strengthening key housing sector institutions to sustain and implement reform efforts that are introduced by the GoTN and supported under the first DPF, and to deepen and expand the reform measures which will be considered under the second DPF. More specifically, the proposed Project aims to enhance the institutional performance and capacity to increase the supply of affordable housing, in particular by crowding in private sector and to strengthen long-term sustainability for housing institutions, policy, and associated programs.

### C. Proposed Development Objective(s)

To strengthen the housing sector institutions of Tamil Nadu for increased and sustainable access to affordable housing.

#### Key Results

- Number of households with increased access to housing in TN (TNSCB or TNSF programs only)
- Share of units delivered through public-private co-financing for EWS/LIG segments of the population
- Amount of additional TNSF capital mobilized
- Satisfaction level of housing beneficiaries of EWS/LIG

### D. Project Description

#### **Component 1. Enabling private sector participation in affordable urban housing provision (Total cost: US\$56 million of which IBRD financing: US\$35 million)**

15. **This component will finance an equity contribution (Class B shares) to the TNSF with an objective of increasing the provision of affordable housing in the state.** TNSF is expected to address a market gap in the housing finance sector by structuring and co-financing eligible private or public-private projects that comprise EWS, LIG and MIG that are commercially viable through cross-subsidization but not sufficiently attractive to the current housing developers (or are deemed too risky). TNSF can only invest in commercially viable projects whereby the expected return may be lower because of the inclusion of affordable housing. Each project will

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<sup>15</sup> While the Tamil Nadu Combined Development and Building Rules, 2019 (TNCDBR) broadly follows the structure and content of the Model Building Bye-Laws 2016 (MBBL), an ongoing World Bank study indicates that specific sections concerning climate resilient construction (Section 12 of the MBBL), green building and sustainability provisions (Section 10 of the MBBL) and rainwater harvesting (Section 9 of the MBBL) are not explicitly reflected or available in the present form of TNCDBR.



be evaluated and approved individually following a process adopted by the Fund's investment Manual (IM), which will be reviewed and approved by the Bank. There are currently two projects in the pipeline: a women's hostel with a project cost of US\$ 8.5 million approximately and a rental project for industrial workers with a cost of US\$50 million. TNSF's investment in these projects would be approximately US\$2.8 million and US\$31 million, respectively.

16. **The equity contribution financed by the proposed project will help to create a new asset class with adequate governance framework and pilot and demonstrate affordable housing projects that are commercially viable for potential investors, thereby allowing to leverage other sources of finance for the affordable housing sector.** The equity contribution is expected to support demonstrative housing projects with a mix of affordable housing units both for ownership and rental units. It is also expected to reduce the perceived risk and to ultimately contribute to a robust supply of affordable housing which can substitute publicly provided units in the long run. The TNSF will establish the adequate governance framework and environmental and social eligibility criteria and requirements to standardize, pilot and demonstrate affordable housing projects that are commercially viable for potential investors. Once the framework is piloted and tested in some initial projects, TNSF will seek to attract private investors into this segment, thereby leveraging additional private financial resources into the affordable housing market.

17. **TNSF's main objective is to support public-private projects for the development of affordable housing in Tamil Nadu.** The TNSF is a new Alternate Investment Fund (AIF) regulated by the Securities and Exchange Board of India (SEBI)<sup>16</sup> that offers investors the possibility to invest in mix-use affordable housing projects that meet certain standards (eligibility criteria). No resources can be received by TNSF until the private placement memorandum (PPM)<sup>17</sup> is approved by SEBI; the TNSF PPM received SEBI approval in late-2019. TNIFMC is the entity responsible for management of TNSF. As the asset management company (AMC) of TNSF, TNIFMC is responsible for taking investment decisions, oversight over performance of investments, compliance with SEBI, investor relations and other corporate reporting obligations of the TNSF.

18. **TNIFMC has developed an operational framework to screen, appraise and approve proposed projects for funding from TNSF, including a robust Environmental, Social, and Governance Management Systems (ESMS) framework<sup>18</sup>.** TNIFMC has developed an investment management process applicable for all investments funded by the Shelter Fund. The operational process of the fund was modelled under a private sector investment fund to assess, select and monitor eligible infrastructure projects for financing. An Investment Manual (IM), to be approved by the WB, will detail the investment management process, including the eligibility criteria, methodology for screening and process for pre-selection of projects. Once the due-diligence to ensure project compliance with the eligibility criteria is done, proposals are to be presented to the Investment Committee (IC) for approval. The IC is the key final authority on all investment decisions. The IC has no representation from the shareholders and consists of professionals from public and private sectors. The IC is completely independent and has no role in deal origination, appraisal or the day to day operations of the fund.

<sup>16</sup> Regulation 2(1) (b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

<sup>17</sup> The private placement memorandum (PPM) includes critical aspects of the interest of investors, such as (i) policies and regulatory framework applicable to the fund and the projects to be financed, (ii) eligibility and prioritization criteria for selection of projects, including expected returns on investments, (iii) standards, responsibilities and minimum qualifications of the fund manager, (vi) risk mitigation measures, and (iii) governance and transparency responsibilities.

<sup>18</sup> The draft ESMS was disclosed for consultations on March 27, 2020. It is available at <http://www.tnifmc.com/tnsf.html>.



**Component 2. Strengthening of Tamil Nadu’s urban housing institutions for enhanced sustainability (Total cost: US\$15 million IBRD)**

19. **This component will finance technical assistance and capacity building support to state-level institutions and their programs.** Under this component, support will be extended to TNSCB, CMDA, and TNIFMC to improve their institutional performance and capacity, and to enhance the effectiveness of their programs and sustainability. This component will also support a program of knowledge exchange on development experience among India’s states and between India and other developing countries on strengthening of the housing sector plugging in to the Lighthouse India program<sup>19</sup>.

Sub-component 2.1: technical support to diversify and improve housing programs and planning solutions

1. **The support to TNSCB will aim to**, inter-alia: (i) improve the institutional and regulatory framework, and business procedures for housing institutions; (ii) enhance sustainability of the existing housing programs; (iii) improve targeting and eligibility criteria; (iv) design new housing programs; (v) carry out additional technical support to improve the performance of housing institutions; (vi) promote housing finance for EWS households from affordable housing finance companies, small finance banks and non-banking financial companies-microfinance institutions.

2. **Technical assistance support to CMDA will focus on strengthening its analytical and coordination capacities for the preparation of the new Master Plan for Chennai.** This would include support to: development of a comprehensive vision for future urbanization of Chennai plugging into and supporting the proposed Chennai City Partnership program; strengthening of urban planning systems (i.e. setting-up a multi-sectoral geo-spatial data system); supporting preparation of guidelines that support the Master Plan process; capacity building towards establishing modern and inclusive land use planning systems; and twinning with an international city on metropolitan planning functions.

Sub-component 2.2: technical assistance support for innovations in affordable housing finance

3. **Provide technical assistance to TNIFMC by supporting tools and innovation towards leveraging external capital in affordable housing and providing capacity building support to pilot the implementation of these tools.** Areas of intervention will include, inter-alia, undertaking social impact and market assessments, building in-housing technical capacity for identifying and structuring potential pipeline projects, support green certified housing development, undertake outreach activities to the market and other states, and build capacities towards effective implementation of the ESMS.

## E. Implementation

4. **The TNIFMC will be the implementing agency of Component 1.** As the asset manager of TNSF, TNIFMC is the entity responsible for management of TNSF, including investment decisions, oversight over performance of investments, compliance with SEBI, investor relations and other corporate reporting obligations of the TNSF. TNIFMC will be responsible for all fiduciary, environmental and social related activities under this component. TNIFMC, an existing and operating asset management company has a solid track record in managing the Tamil Nadu Infrastructure Fund (TNIF)<sup>20</sup>, and managing the TNSF. TNIFMC has an environmental staff and relies on

<sup>19</sup> The Project will support all costs related to GoTN involvement only.

<sup>20</sup> TNIFMC is owned by the Government of the State of Tamil Nadu (49%), and state and private financial institutions (51%). The Board is comprised of: 3 Government Directors (to be reduced to 2), 2 Independent directors and 1 Shareholder nominee



consultants for due diligence on projects and compliance to National and State law. TNIFMC has developed an investment management process applicable for all investments funded by the Shelter Fund, describing the eligibility criteria, methodology for screening and process for pre-selection of projects, and a financial model to assess project’s financial viability and ensure that projects meet needed criteria and principles.

5. **The TNSCB will be the implementing agency of Component 2; coordinating with other agencies involved in implementation of this component including TNIFMC and CMDA.** TNSCB will set up a Project Management Unit consisting of project director, technical, financial management, procurement, environmental, social development, and communication monitoring and evaluation specialists, and other support technical staff with overall responsibility for project management and reporting of this component, and execution of activities to be undertaken by TNSCB. Similar counterpart teams will be set-up by CMDA and TNIFMC for purpose of execution of this component. TNSCB has prior experience implementing World Bank funded Emergency Tsunami Reconstruction Project (ETRP) and will assume direct responsibility for day-to-day project management, coordination, monitoring, and implementation of the component, in close coordination with CMDA and TNIFMC. CMDA also has prior experience of implementing one of the components of the World Bank funded Tamil Nadu Urban Development Project Phase III.

**F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

Specific project locations under component 1 are not known. Sub-projects financed under Component 1 will be individually screened and assessed for environmental, social and governance issues taking into account location as per the ESMS methodology.

**G. Environmental and Social Safeguards Specialists on the Team**

- Mridula Singh, Social Specialist
- Ekaterina Grigoryeva, Environmental Specialist
- Anindo Kumar Chatterjee, Social Specialist
- Mokshana Nerandika Wijeyeratne, Environmental Specialist

**SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The World Bank’s Safeguard Policies will apply within the context of activities to be financed under

(NHB).



Component 2. Under this component the project will finance technical assistance (TA) activities through the TNSCB and CMDA. No physical interventions that may result in adverse environmental and social impacts will be financed under this component. As the state agency mandated to provide affordable housing to the lower income groups, TNSCB is actively designing, constructing and operating housing projects across the state. TNSCB has an Environmental Cell whose staff coordinates all the environmental management activities in association with the site engineers of their various housing projects. TNSCB also has a Community Development Cell who is responsible for engaging with the community to identify eligible households for house, extend support during transition and to help restore their well-being at the alternate site. TA activities will further strengthen its environmental and social management capacity with a particular focus on managing environmental and social issues during planning, implementation and operation & maintenance of housing projects, which is a critical challenge. All ToRs for the activities will be cleared by the WB team prior to contracting.

The CMDA's technical assistance activities will pertain largely to building its capacity on institutional and analytical capacities relevant to the next master plan revision in 2026. The mobility plan and water resources plan will form a part. None of these activities will have any direct environmental or social impacts and provide opportunities to integrate environmental management upfront and therefore will be beneficial in terms of an environmental management standpoint. The Bank will provide clearance to all the ToRs of the TA activities financed under this component to ensure that the outputs are aligned with OP4.01 and follow all requisite due diligence processes the policies that the Bank's safeguard policies entail.

Provisions under OP/BP 4.03 (Performance Standards) related to Financial Intermediaries will apply to Component 1. Since the exact locations of the projects to be financed under this component are not known, all eight Performance Standards are relevant for this component. The Investment

Performance Standards for Private Sector Activities OP/BP 4.03

Yes



Manual prepared by TNIFMC includes an ESMS that fully integrates Performance Standards requirements and mandates the application for all projects.

The ESMS developed by the TNIFMC is applicable to all investments funded by the Tamil Nadu Shelter Fund (TNSF) and incorporates relevant principles described in Performance Standard 1 (PS1) on Assessment and Management of Environmental and Social Risks and Impacts. In addition, TNSF is committed to manage its own workforce and ensure that the respective workforce of the project companies that will develop the projects is managed in accordance to relevant aspects of Performance Standard 2 (PS2) on Labor and Working Conditions, as required by para 17(b) of BP 4.03.

Importantly, the ESMS includes provisions to:

1. Ensure compliance with applicable national and state laws and regulations including national, state and municipal by-laws and other provisions regulating housing development and certification by relevant authorities (for example: building safety, life and fire safety, waste management, green building certification, energy conservation, access to basic services – water, sanitation, etc.) and national/state laws on Labour
2. Exclude projects that would trigger the following preliminary criteria for ineligibility:
  - a. Are developed on land / area involving outstanding disputes on ownership of the land, in the court of law
  - b. Are developed in locations and / or in a manner that involves significant degradation or conversion of critical habitats (as defined in IFC Performance Standard (6)
  - c. Are developed in locations and / or in a manner that has adverse impacts on internationally recognized or legally protected ecological or social and cultural areas under the applicable National or Tamil Nadu State regulations (this includes areas proposed for such designation)
  - d. Are developed on land reclaimed from known / established contaminated sites such as waste landfill



sites, industrial sites, etc. unless remediated for the intended use (this includes construction in locations that are in immediate proximity to such existing sites)

e. Are notified as illegal or non-compliant by the local or the Tamil Nadu municipal, revenue or housing authorities.

f. Are located on land facing any material litigation in the Indian court of law for forced eviction of previous owners or occupants without appropriate compensation.

g. Require partnering with builders and/or developers convicted by the Indian court of law, in the past 5 years, on ESG aspects such as financial fraud, inappropriate employment and labor practices, safety, unauthorized construction, and/or non-compliance to the National and/or Tamil Nadu State environmental and labor laws.

3. Projects that are considered eligible (i.e. that do not trigger any of the criteria in #2 above) are then screened and assigned a risk level category. All projects categorized as high risk are excluded and will not be considered for financing

4. Projects, which are not considered to be high risk, will be assessed in order to ensure compliance with WB Performance Standards case by case. Mitigation actions will be identified and will be included in the investment agreement.

5. Include a structured grievance redressal framework supported by a review mechanism. This redressal mechanism is accessible not just to TNSF's investees, but also its employees, vendors and the community at large.

Natural Habitats OP/BP 4.04

No

Project interventions under component 2 are not expected to have any significant impacts on the natural habitats in relation to the proposed project activities as no physical interventions will be directly financed under the project. All TA activities will be screened under the requirements of OP4.01 which also covers the required due diligence measures in line with OP4.04.



Forests OP/BP 4.36	No	No impacts are envisioned due to the proposed project on forests.
Pest Management OP 4.09	No	The policy is not applicable as no project interventions under component 2 are made where significant use of pesticides and other such substances are utilized.
Physical Cultural Resources OP/BP 4.11	No	Project interventions under component 2 are not expected to have any significant impacts on the natural habitats in relation to the proposed project activities as no physical interventions will be directly financed under the project. All TA activities will be screened under the requirements of OP4.01 which also covers the required due diligence measures in line with OP4.011.
Indigenous Peoples OP/BP 4.10	No	This policy is not applicable as the project includes only technical assistance which does not include support for design, preparation or implantation of investments.
Involuntary Resettlement OP/BP 4.12	No	The policy is not applicable as no project interventions under component 2 will involve any works or any activities that could trigger this policy.
Safety of Dams OP/BP 4.37	No	The proposed project activities do not have any impacts associated with the safety of dams therefore this policy is not triggered.
Projects on International Waterways OP/BP 7.50	No	The proposed project activities do not have any impacts to the international waterways and therefore this policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	No impacts are envisioned due to the proposed project in disputed areas. There are no disputed areas where project interventions are undertaken and therefore this policy is not triggered.

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project includes 2 components – (1) finance an equity contribution for the Tamil Nadu Shelter Fund (TNSF); and (2) provide technical assistance and capacity building to state-level urban housing institutions, primarily the Tamil Nadu Slum Clearance Board (TNSCB). The equity contribution from the Bank will help TNSF develop and leverage finance from various other sources to develop affordable housing in the state of Tamil Nadu. Activities under this component could have environmental and social risks as highlighted in Section F, Para (1). To address these risks, TNSF has developed and adopted an ESMS that will be incorporated into their Investment Manual, once the Manual is



finalized and formally adopted, that will allow the fund to proactively identify and manage various ESG risks in accordance with the World Bank's Performance Standards.

The overall purpose of Component 2 is to support strengthening of institutions in the housing sector in Tamil Nadu and help them meet the international standards of ESG sustainability. The TA will not finance any construction activities. There will be no adverse ESG impacts of activities under Component 2. Under this component, the project will support technical assistance activities that will include analytical studies relevant to policy & institutional reforms and capacity building of the urban housing institutions on ESG issues. These will contribute positively in building the sector's capacity in addressing ESG issues.

Component 1 aims to use the equity contribution to support a portfolio of projects that will develop- and in the case of rental projects also manage - urban affordable housing projects. The projects are expected to supply affordable housing through mixed use and mixed income developments (i.e. affordable housing high rises with a commercial area, or middle and low income residential rental properties) allowing for the cross-subsidization of lower income units by middle-income ones. The environmental, social and governance (ESG) risks of this component could be substantial unless adequate due diligence, risk mitigation, and ESG performance monitoring measures are put in place. The main environmental risks are associated with the siting, design and operation of facilities which could be under either of the following instance: (a) proximity to ecologically sensitive areas (e.g. lakes, marshland, forest etc.), (b) located in areas or include designs that make it vulnerable to physical impacts of climate change such as extreme weather events (c) exposure to pollution (very poor air quality, proximity to landfill, poor land quality / contaminated site etc.) that impact livability and adversely affect health and safety of the inhabitants, (d) locations that are vulnerable to physical risks such as landslides, (e) projects not meeting environmentally sustainable design requirements of the TNSF, (f) construction induced impacts, such as noise, construction material sourcing, dust, spills of toxic substances, health and safety affecting workers and local communities in adjacent areas, (g) Improper disposal of various wastes generated at sites, including construction & demolition wastes during construction and waste water and solid waste during operations being discharged to the environment without an environmentally sound mechanism or treatment.

Social-related risks during planning, site selection, implementation and post implementation could be due to: (a) project land having encumbrances and/or under litigation; (b) project land associated to forced eviction; (c) non-compliance of project companies with National and state labor laws that covers provisions for: (i) labour welfare, (ii) safeguard the rights of women employees and measures to address gender based violence both at public and workplace; (iii) prohibits child labour, (iv) ensures adequate employee compensation; (v) minimum and equal wages; (vi) facilities for labour and children at work site (viii) community health and safety arising from labour influx; (d) lack of systems to deliver basic services like water, sewerage etc. and (e) elite capture of developed properties. Moreover, weak corporate governance mechanisms of developers could raise risks for project companies such as reputation, inadequate internal controls for fiduciary issues

Currently, ESG risk management capacity in TNIFMC is limited – there is only one full time staff working on ESG risk management overseen by a senior management staff whose responsibility also includes overseeing ESG risk management. The two staff members with limited experience in ESG risk management have received orientation and training. To support the team, TNIFMC routinely hires consultants and firms to perform specialized functions related to ESG aspects.

TNSF has developed an Environment and Social Management System (ESMS) that is an integral part of the Investment Manual (it is a dedicated chapter and informs the investment decision process). The ESMS will be applicable to all



projects. It will guide the screening, due diligence, appraisal, approval, and monitoring of the supported investment projects. The ESMS includes mechanisms to identify and mitigate key ESG risks throughout the life cycle of the supported projects (from identification to exit). The ESMS implementation will be supported by adequate capacity at TNSF to oversee and monitor the consistent and rigorous implementation of the ESG requirements by the supported projects. The ESMS will be disclosed.

Component 2 will aim to strengthen urban housing institutions in Tamil Nadu through a combination of technical assistance and capacity building support. No activity under this component will lead to any adverse environmental and social impact. Rather, activities under this component will result in the main housing institutions in Tamil Nadu (namely TNSCB and CMDA) adopting good practices on environmental and social risk management as per World Bank safeguard policies and national laws (as mentioned in section G below) while being responsive to the needs and aspirations of the EWS / LIG population in Tamil Nadu. This would, in the long run, contribute to greater sustainability of the housing sector in Tamil Nadu.

The component will focus on strengthening analytical understanding of recent policy and institutional reforms (through the concurrent DPL and otherwise) and its implications for ESG issues. There will also be a focus on developing guidelines and systems to implement the ESG sustainability framework and building the capacity of the various institutions involved with affordable housing.

The project will apply a differentiated approach to environmental and social aspects. For Component 1 WB OP/BP4.03 (World Bank Performance Standards for Private Sector Activities) will apply. For Component 2, relevant World Bank Safeguard Policies will apply. OP 4.03 will apply for Component 1 given that: (1) TNSF is an established financial institution – regulated by SEBI - operates on a commercial basis as a private sector financial institution, and (2) all of its investments will be made with private sector co-financing or participation. Performance Standards are internationally recognized as the most prevalent standard globally for project finance in the commercial financial sector and hence TNUIFMC is also more familiar with them. For Component 2 all safeguard policies will apply given that it will be implemented by public sector entities. As Component 1 carries the higher degree of potential adverse environmental and social impacts and a larger allocation of funds, this component drives the overall risk classification of the project.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: Indirect impacts could include issues relating to sourcing of the construction materials required for the project and management of solid and liquid wastes in the housing areas developed with project support.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The no-project alternative, while it would minimize adverse ESG risks and impacts, would not allow for expansion of available affordable housing. There are no viable alternative solutions to accommodate growing population in need of such housing. Additionally, at the specific investment project level, the Performance Standards mandate screening and selection criteria to facilitate analysis of alternatives for sub-project investments.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

For component 1 the TNIFMC has developed an ESMS. An advanced draft has been reviewed by the Bank and its summary was disclosed prior to appraisal. The final version (which should be fully acceptable to the Bank) will be finalized prior to negotiations. TNIFMC will ensure that adequate measures are in place to screen all investment



opportunities for ESG risks as part of acceptance criteria for its portfolio.

The ESMS includes:

- i. An E&S policy with clearly specified applicable E&S requirements and standards. The policy specifies the applicable E&S Requirements, consistent with OP/BP4.03.
- ii. E&S risk management procedures for screening, identification, assessment, mitigation, monitoring and reporting of E&S risks.
- iii. Reporting requirements for internal and external stakeholders on implementation in accordance with World Bank's Performance Standards and EPFIs' (Equator Principle Financial Institutions) reporting requirements
- iv. Capacity, roles and responsibilities within the organizational structure for managing and monitoring E&S risks are articulated in TNSF's ESG procedures. TNSF is a relatively new fund and has not yet started operations, but is managed by TNIFMC which has a track record as fund managers. TNIFMC has appointed one of its senior staff to be formally responsible for ESG risk management for TNSF, with a view of integrating ESG Risk Management into the overall investment appraisal and investment risk management processes of the fund. The senior official is assisted on a day to day basis with a full time mid level manager. Both the staff entrusted with E&S responsibilities have undergone some trainings on ESG Risk Management.
- v. A structured grievance redressal framework supported by a review mechanism. This redressal mechanism can be used not just by TNSF's investees, but also by its employees, vendors and the community at large.

TNIFMC's shareholders comprise the Government of Tamil Nadu and public and private financial institutions have shown a strong commitment towards ESG Sustainability. The fund is managed by a team of professionals who demonstrate a strong commitment to adopting the best standards on environmental and social sustainability while ensuring commercial viability of the business. The Investment Committee of the fund comprises reputed professionals who are independent (from the management of the fund) and often make go-no go decisions basis perceived ESG risks of investment proposals.

#### Environmental and Social Action Plan (ESAP)

1. TNIFMC's Board will formally adopt ESG Policy and corresponding E&S procedures after receiving World Bank's approval of the E&S Policy and Procedures - Before Negotiations
2. TNSF will publicly disclose the draft ESMS on its website - Before Appraisal
- 3 TNSF will publicly disclose the final ESMS approved by the WB on its website following formal approval of the same by TNIFMC's Board - Before Negotiations
4. Following formal approval of its ESMS TNIFMC will consistently ensure that all the TNSF investment activities are in compliance with its ESG Policy as well as the World Bank's E&S requirements (namely compliance with f World Bank OP 4.03 - Ongoing, during implementation
5. TNSF will continue to augment its ESG risk management capacities (as per the Capacity Building Plan included in the ESMS) and will exercise reasonable efforts to support its key associates, partners and vendors in meeting TNSF's ESG requirements. To that extent, TNSF will actively participate in the development and rollout of training and capacity building activities. In particular, in terms of capacity building this would include:
  - a. Support with developing systems and capacity for E&S risk management measures specific to the housing development and real estate sector
  - b. Recruitment or, more likely, identification among existing staff, of individuals in each associate, partner and / or vendor organization to take up the responsibility of SG screening in the affordable housing development sector;
  - c. Ensure, to the extent possible, that the knowledge and tools are internalized and applied by relevant staff through the investment period - Ongoing, during implementation

For Component 2; TNSCB will develop Social sustainability framework to develop guidelines and systems that broadly



covers need assessment, gender and livelihood strategies to build the social capital for o&m, stakeholder and community engagement, grievance management and monitoring and evaluation

**Role of the World Bank**

The Bank will: (i) assist and advise TNSF on improving and enhancing Environmental and Social Management System during project implementation, including capacity building activities; (ii) review annual consolidated E&S Performance Report submitted by TNSF as required by BP4.03 paragraph 26; (iii) conduct supervision activities at the World Bank's discretion, as commensurate with the ongoing needs of the project.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The ISDSs is prepared and disclosed by the Bank as the source of summary information on the Bank's findings regarding environmental and social issues. TNSF will disclose its ESG Policy on its website after the World Bank approves of the same and the TNIFMC Board formally adopts the ESG Policy and Procedures. During the preparation of the E&S Policy, TNSF has consulted and sought inputs from its key stakeholders including, its investee organizations, potential investors (including the World Bank and ADB amongst others), housing project developers, Government of Tamil Nadu officials and others. TNSF will continue to consult and engage with these and other throughout the project.

**B. Disclosure Requirements**

**Environmental Assessment/Audit/Management Plan/Other**

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
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**"In country" Disclosure**

India  
17-Mar-2020

Comments  
ESMS draft disclosed in TNIMC's website

**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)**

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?  
No



### The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

No

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

### All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

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**APPROVAL**

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